

104

File
MOD000818963

MCDONNELL DOUGLAS

28 March 1984

CORPORATION

Regional Administrator
U. S. Environmental Protection Agency
Region VII
324 East Eleventh Street
Kansas City, Missouri 64106
Attn: Mr. Robert Morby

EPA-ARWM/PMTS

MAR 29 1984

Regional Administrator
U. S. Environmental Protection Agency
Region VI
1201 Elm Street
Dallas, Texas 75270
Attn: Mr. Gerald Fontenot

Region VII K.C., MO

Mr. A. T. Sawicki
Supervisor
Solid/Hazardous Waste
Department of Environmental Regulation
St. Johns River District
3319 MaGuire Boulevard
Orlando, Florida 32803-3767

Reference:

- (a) McDonnell Douglas Corporation
EPA ID No.: MOD000818963
- (b) McDonnell Douglas Corporation
EPA ID No.: OKDO41501347
- (c) McDonnell Douglas Electronics Co., a
division of McDonnell Douglas Corporation
EPA ID No.: MOD075888487
- (d) McDonnell Douglas Astronautics Co., a
division of McDonnell Douglas Corporation
Florida ID No.: FLD 064 824 030

Dear Sirs:

The enclosed documents are hereby submitted to comply with the EPA Guidelines published in the Federal Register. The close of McDonnell Douglas Corporation's fiscal year was 31 December 1983.

The enclosed insurance certificate has been previously submitted, thus only a copy is being provided at this time.

Sincerely,

J. Kevin Coyne
J. Kevin Coyne

Senior Administrator
Corporate General Insurance



R00148146

JKC:dbk

RCRA RECORDS CENTER

MCDONNELL DOUGLAS



26 March 1984

Regional Administrator
U. S. Environmental Protection Agency
Region VII
324 East Eleventh Street
Kansas City, Missouri 64106
Attn: Mr. Robert Morby

Regional Administrator
U. S. Environmental Protection Agency
Region VI
1201 Elm Street
Dallas, Texas 75270
Attn: Mr. Gerald Fontenot

Mr. A. T. Sawicki
Supervisor
Solid/Hazardous Waste
Department of Environmental Regulation
St. Johns River District
3319 MaGuire Boulevard
Orlando, Florida 32803-3767

Mr. Don Hensch
Oklahoma State Department of Health
Hazardous Waste Division
Post Office Box 53551
Oklahoma City, Oklahoma 73152

Dear Sir:

I am the principal financial officer of McDonnell Douglas Corporation, Post Office Box 516, St. Louis, Missouri 63166. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage and closure and/or post-closure care as specified in Subpart H of 40 CFR Parts 264 and 265.

The owner or operator identified above is the owner or operator of the following facilities for which liability coverage is being demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265:

McDonnell Douglas Corporation
EPA ID No.: MOD000818963
P. O. Box 516
St. Louis, Missouri 63166

McDonnell Douglas Corporation
EPA ID NO.: OKD041501347
2000 North Memorial Drive
Tulsa, Oklahoma 74115

McDonnell Douglas Electronics Co., a
division of McDonnell Douglas Corporation
EPA ID NO.: MOD075888487
MO ID No.: 01110
P. O. Box 426
St. Charles, Missouri 63301

McDonnell Douglas Astronautics Co., a
division of McDonnell Douglas Corporation
Florida ID No.: FLD 064 824 030
P. O. Box 600
Titusville, Florida 32780

The owner or operator identified above owns or operates the following facilities for which financial assurance for closure or post-closure care is demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post-closure cost estimates covered by the test are shown for each facility:

St. Louis Facility
\$288,000

Tulsa Facility
\$3,671,251

St. Charles Facility
\$31,840

Titusville Facility
\$3,200

The owner or operator identified above guarantees, through the corporate guarantee specified in Subpart H of 40 CFR Parts 264 and 265, the closure and post-closure care of the following facilities owned or operated by its subsidiaries. The current cost estimates for the closure or post-closure care so guaranteed are shown for each facility:

None

In States where EPA is not administering the financial requirements of Subpart H of 40 CFR Parts 264 and 265, this owner or operator is demonstrating financial assurance for the closure or post-closure care of the following facilities through the use of a test equivalent or substantially equivalent to the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The

current closure and/or post-closure cost estimates covered by such a test are shown for each facility:

None

The owner or operator identified above owns or operates the following hazardous waste management facilities for which financial assurance for the closure or, if a disposal facility, post-closure care, is not demonstrated either to EPA or a State through the financial test or any other financial assurance mechanism specified in Subpart H of 40 CFR Parts 264 and 265 or equivalent or substantially equivalent State mechanisms. The current closure and/or post-closure cost estimates not covered by such financial assurance are shown for each facility:

None

This owner or operator is required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this owner or operator ends on 31 December. The figures for the following items marked with an asterisk are derived from this owner's or operator's independently audited, year-end financial statements for the latest completed fiscal year, ended 31 December 1983.

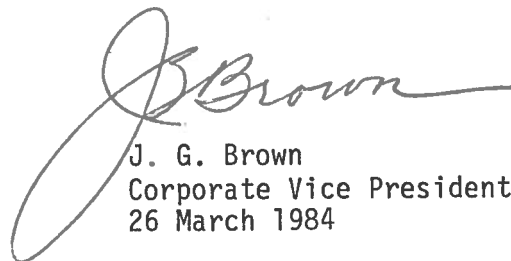
Part B. Closure or Post-Closure Care and Liability Coverage

Alternative I

1.	Sum of current closure and post-closure cost estimates (total of all cost estimates listed above)	\$ 3,994,291
2.	Amount of annual aggregate liability coverage to be demonstrated	\$ 2,000,000
3.	Sum of lines 1 and 2	\$ 5,994,291
* 4.	Total liabilities (if any portion of your closure or post-closure cost estimates is included in your total liabilities, you may deduct that portion from this line and add that amount to lines 5 and 6)	\$2,723,900,000
* 5.	Tangible net worth	\$2,026,600,000
* 6.	Net worth	\$2,067,900,000
* 7.	Current assets	\$2,940,300,000
* 8.	Current liabilities	\$2,663,900,000
9.	Net working capital (line 7 minus line 8)	\$ 276,400,000

- | | | | |
|-------|---|----------------|-----------|
| * 10. | The sum of net earnings plus depreciation and amortization | \$ 491,600,000 | |
| * 11. | Total assets in U. S. (required only if less than 90% of assets are located in U. S.) | \$ | N/A |
| | | <u>Yes</u> | <u>No</u> |
| 12. | Is line 5 at least \$10 million? | X | |
| 13. | Is line 5 at least 6 times line 3? | X | |
| 14. | Is line 9 at least 6 times line 3? | X | |
| * 15. | Are at least 90% of assets located in U.S.? If not, complete line 16. | X | |
| 16. | Is line 11 at least 6 times line 3? | N/A | |
| 17. | Is line 4 divided by line 6 less than 2.0? | X | |
| 18. | Is line 10 divided by line 4 greater than 0.1? | X | |
| 19. | Is line 7 divided by line 8 greater than 1.5? | | X |

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.151 (g) as such regulations were constituted on the date shown immediately below.



J. G. Brown
Corporate Vice President-Treasurer
26 March 1984

Alexander & Alexander Inc.
R. B. Jones of St. Louis, Inc.
120 South Central Avenue
St. Louis, Missouri 63105

**Alexander
& Alexander**

CERTIFICATE OF INSURANCE

No. 46a

Date 13 December 1983

CERTIFICATE ISSUED TO

NAMED INSURED AND ADDRESS

United States Environmental Protection
Agency

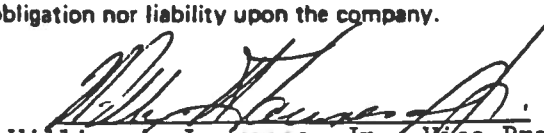
MC DONNELL DOUGLAS CORPORATION
AND ANY OF ITS DIVISIONS OR
SUBSIDIARY COMPANIES
POST OFFICE BOX 516
ST. LOUIS, MISSOURI 63166

This is to certify that the Central National Insurance Company of Omaha has issued to the Named Insured, insurance affording coverage as indicated below.
THIS CERTIFICATE OF INSURANCE NEITHER AFFIRMATIVELY NOR NEGATIVELY AMENDS, EXTENDS OR ALTERS THIS COVERAGE AFFORDED BY ANY POLICY DESCRIBED HEREIN.

KIND OF INSURANCE	POLICY NUMBER	COMPANY	POLICY PERIOD	LIMITS OF LIABILITY
Comprehensive General Liability-Products Completed Operation (Excluding Aircraft Products), Contrac- tual Liability, Comprehensive Auto- mobile Liability.	CNS 13- 30-35	Central National Ins. Co. of Omaha	8/1/82 to 8/1/85	\$2,000,000. Each Occurrence Single Limit Bodily Injury and Property Damage \$2,000,000. Annual Aggregate

SEE ATTACHED ADDENDUM

In the event of any material change in, or cancellation of, said policies, the company(s) will give 30 Days written notice to the party to whom this certificate is issued, but failure to give such notice shall impose no obligation nor liability upon the company.


R. B. Jones, President

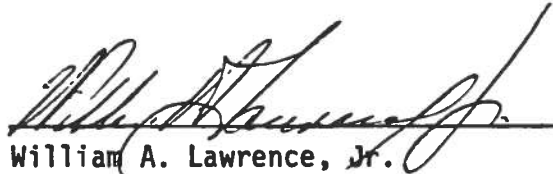
ADDENDUM #1 TO
CERTIFICATE OF INSURANCE
#46a
DATED 12/13/83

1. The Central National Insurance Company, the Insuror, of 3580 Wilshire Boulevard, Los Angeles, California 90010, hereby certifies that it has issued liability insurance covering bodily injury and property damage to McDonnell Douglas Corporation, the Insured, of P. O. Box 516, St. Louis, Missouri 63166, in connection with the Insured's obligation to demonstrate financial responsibility under 40 CFR 264.147 or 265.147. The coverage applies at the Tulsa Facility, EPA I.D. No. OKD041501347, 2000 North Memorial Drive, Tulsa, Oklahoma, at the St. Louis Facilities, EPA I.D. No. MOD000818963, Tracts I and II, Brown, Lindbergh and Banshee Roads, St. Louis, Missouri 63166, at the MDEC Facility, EPA I.D. No. MOD075888487, P. O. Box 426, St. Charles, Missouri, and at the MDAC Facility, Florida I.D. No. FLD 064 824 030, P. O. Box 600, Titusville, Florida, for sudden and accidental occurrences. The limits of liability are \$2,000,000.00 each occurrence and \$2,000,000.00 annual aggregate, exclusive of legal defense costs. The coverage is provided under Policy No. CNS 13-30-35 issued on August 1, 1982. The effective date of said policy is August 1, 1982.
2. The Insuror further certifies the following with respect to the insurance described in Paragraph 1:
 - a) Bankruptcy or insolvency of the Insured shall not relieve the Insuror of its obligations under the policy.
 - b) The Insuror is liable for the payment of amounts within any deductible applicable to the policy, with a right of reimbursement by the Insured for any such payment made by the Insuror. This provision does not apply with respect to that amount of any deductible for which coverage is demonstrated as specified in 40 CFR 264.147 or 265.147.
 - c) Whenever requested by a Regional Administrator of the U. S. Environmental Protection Agency (EPA), the Insuror agrees to furnish to the Regional Administrator a signed duplicate original of the policy and all endorsements.
 - d) Cancellation of the insurance, whether by the Insuror or the Insured, will be effective only upon written notice and only after expiration of sixty (60) days after a copy of such written notice is received by the Regional Administrator(s) of the EPA Region(s) in which the facilities are located.
 - e) Any other termination of the insurance will be effective only upon written notice and only after the expiration of thirty (30) days after a copy of such written notice is received by the Regional Administrator(s) of the EPA Region(s) in which the facilities are located.

ADDENDUM #1 TO
CERTIFICATE OF INSURANCE
#46a
DATED 12/13/83

I hereby certify that the wording of this instrument is identical to the wording specified in 40 CFR 264.151(j) as such regulation was constituted on the date first above written, and that the Insuror is licensed to transact the business of insurance, or eligible to provide insurance as an excess or surplus lines insuror, in one or more States.

Signed by:



William A. Lawrence, Jr.
Vice President
Alexander & Alexander, Inc.
Authorized Representative of
Central National Insurance Co.
120 South Central Avenue
Saint Louis, Missouri 63105

Ernst & Whinney

10 Broadway
St. Louis, Missouri 63102

314/231-7700

McDonnell Douglas Corporation
St. Louis, Missouri

We have applied certain procedures, as discussed below, with respect to selected data contained in J. G. Brown's letter dated 26 March 1984 to the Regional Administrator of Region VII of the U. S. Environment Protection Agency. These procedures were performed solely for inclusion with this letter referred to above, and our report is not to be used for any other purpose. The procedures we performed are summarized as follows:

- a. We determined that the amounts included in the letter referred to above for Total Liabilities, Tangible Net Worth (Total Assets less Deferred Charges and Total Liabilities), Net Worth, Current Assets, Current Liabilities, Net Working Capital (Current Assets less Current Liabilities) and Net Earnings plus Depreciation and Amortization were in agreement with or derived from the 31 December 1983 Audited Consolidated Financial Statements of McDonnell Douglas Corporation.
- b. We determined that the assets located in the United States which were included in the Consolidated Balance Sheet of McDonnell Douglas Corporation as of 31 December 1983 exceeded 90% of total assets at that date.

Because the above procedures do not constitute an examination in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. No matters came to our attention that caused us to believe that the specified data should be adjusted. This report relates only to the accounts and items specified above and does not extend to any financial statements of McDonnell Douglas Corporation taken as a whole.

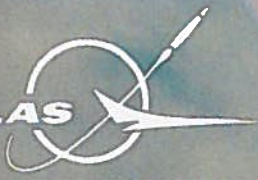
Ernst & Whinney

St. Louis, Missouri
26 March 1984

1983 ANNUAL REPORT

31 DECEMBER 1983

MCDONNELL DOUGLAS



CORPORATION



◀ Cover: View from back seat of F-15 Eagle. ▲ Above: A KC-10 is prepared for delivery at Long Beach, Calif.

McDonnell Douglas Corporation

McDonnell Douglas Corporation is a world leader in the development and application of aerospace technology. Major product lines are combat aircraft, transport aircraft, space systems and missiles. Smaller lines of business range from information systems to electronics, from commercial financing and leasing to energy systems. According to recent listings, McDonnell Douglas ranks 43rd in sales among U.S. industrial corporations, eighth in value of exports and second in total value of defense contract awards. The corporation's major facilities are situated in St. Louis, Mo.; southern California; Tulsa, Okla., and Toronto, Canada.

HIGHLIGHTS

YEARS ENDED 31 DECEMBER

(Dollar amounts in millions, except share data)

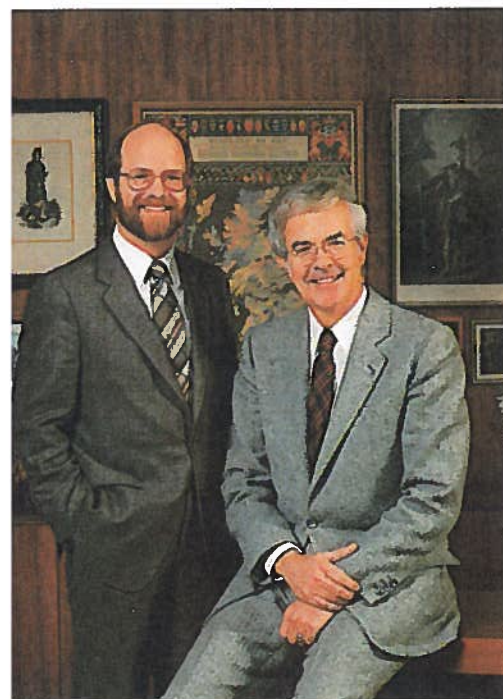
	1983	1982
Sales	\$8,111.0	\$7,331.3
Net earnings	\$274.9	\$214.7
Earnings per share	\$6.91	\$5.44
Cash dividends declared	\$55.7	\$47.6

As of 31 December

Shareholders' equity per share	\$52.39	\$47.24
Working capital	\$276.4	\$546.9
Firm backlog	\$10,733.9	\$10,164.7
Personnel	74,466	72,451

Contents	
Page	
1.	Financial Highlights.
2.	Letter to Shareholders.
4.	Report on Programs.
16.	Financial Section.
32.	Corporate Directory.

TO SHAREHOLDERS AND CO-WORKERS



JOHN F. MCDONNELL President
SANFORD N. MCDONNELL Chairman and Chief Executive Officer

Sales and earnings of McDonnell Douglas Corporation were substantially higher in 1983 than in 1982.

Sales totaled \$8.11 billion dollars, an improvement of 10.6%. Most of the increase occurred in our combat aircraft line of business — especially in the F/A-18 Hornet program, which was producing seven aircraft monthly by year-end.

Earnings were \$274.9 million, 28% higher than the 1982 total. The principal causes of the increase were higher sales volume and cost reduction and productivity improvement programs. Other contributing factors were lower interest expense, higher interest income and McDonnell Douglas Finance Corporation's increased earnings. Losses in our information systems line of business had a negative impact.

Challenging conditions prevailed in several of MDC's most important markets in 1983. U.S. spending for defense and space remained unpredictable as government officials sought to divide limited resources among a wide variety of mature and growing programs. A long-awaited improvement in the financial condition of the world's airlines, and a resulting increase in demand for new jetliners, failed once again to materialize. And increasingly widespread use of microcomputers is causing rapid change in the information systems field.

The broad strength of MDC gave us the means to respond to all these challenges. We responded first by reorienting our approach to key markets; some of that reorientation is evident in the organization of this report. Where previously we had "military aircraft" and "commercial aircraft" sections, this year the corresponding sections are titled "combat aircraft" (a category limited to fighter and attack planes and associated programs) and "transport aircraft" (which includes airliners as well as such military transports as the KC-10 and C-17). The change reflects a commitment to strengthen our Douglas Aircraft Company division, which currently produces airliners and military derivatives of airliners, by also focusing it strongly on military transport programs not derived from or dependent upon commercial aircraft.

Along with reorienting its approach to markets, MDC is increasing its emphasis on activities that are growing in importance as a result of general business conditions. Management, which in the past few years has given considerable attention to strategic planning, in 1983 developed special programs aimed at two different but related goals. The first is the maximizing of each worker's opportunity to contribute fully and creatively to the success of the corporation. The second is the elimination of waste and inefficiency by every possible means. We are achieving the first goal through programs that broaden participation in decision-making and encourage the development of individual potential. The second is being achieved through productivity improvements and rigorous cost control programs.

Productivity and cost control are of crucial importance in the combat aircraft field, where MDC long has been and remains today an international leader. The F-15 Eagle, F/A-18 Hornet and AV-8B Harrier II have all proved to be outstanding aircraft, and each of them makes a unique contribution to the defense of the U.S. and our allies. Together they are an array of fighter and attack aircraft that no other company can match. Maintaining the leadership position they give us must obviously be one of the prime objectives of MDC and its management.

Price competitiveness is today more essential than ever to the winning of new combat aircraft contracts. Cost efficiency is essential for sustaining established programs over extended periods of time. During the past year, without compromising our traditional high standards of quality and performance, we have established and moved toward the achievement of ambitious objectives in these areas. Our success was, as noted, a significant reason for 1983's earnings growth.

In November we announced our decision to stop all work on the proposed MD-90 and MD-100 jetliners, which together would have required us to pay out about \$1 billion in development funds. In making this announcement we stated that Douglas Aircraft will continue to manufacture the twin-engine MD-80, work on possible improved versions of the MD-80, and pursue major military aircraft programs such as the C-17, KC-10 and T-45TS and advanced transport aircraft technology programs. Our decision, a response to the unpromising state of the commercial aircraft market, has enabled us to maintain the continuity of our commercial aircraft work while seeking new opportunities to apply our transport experience in both military and commercial markets. Our challenge is to carry out a two-part strategy of achieving sufficient business volume for Douglas while also achieving the high levels of productivity and cost-control necessary for profitability.

Another significant event was the purchase, for \$470 million, of Hughes Helicopters, Inc., from the estate of the late Howard R. Hughes. This purchase, announced on 16 December and completed in January 1984, puts us into a line of business that is new to MDC but highly compatible with our other aerospace activities. The already strong position of Hughes Helicopters in its market will be enhanced by MDC's capabilities in cockpit technology, systems integration and other areas. See page 15 for additional information about Hughes Helicopters.

Our space systems and missiles line of business, which includes a wide range of products, accounted for about 17% of 1983's sales. Our capabilities in this field remain an integral element of MDC's aerospace leadership, and we are continuing to apply those capabilities to a large number of program opportunities.

In 1983 McDonnell Douglas Automation Company, McAuto®, experienced significant losses in connection with funding the rapid growth of its computer-aided design and manufacturing (CAD/CAM) product line. Startup costs associated with Medicaid claims processing activities of its MSGI unit also resulted in losses. These losses were partly offset by strong results in McAuto's telecommunications and Health Services Division activities, and they might have been offset entirely if overall sales had grown at the rate originally expected for 1983. But such a rate proved unachievable as the market continued to be disrupted by the lingering effects of recession, intense competition, the spread of microcomputers and other developments. McAuto as a whole, therefore, recorded a loss for 1983. The company quickly altered the way it operates in direct response to the new information systems environment. In the last quarter of 1983, thanks in part to far-reaching cost reduction measures, it operated at a small profit.

The purchase of Hughes Helicopters — and also the acquisition for \$69.2 million of Computer Sharing Services, Inc., which will strengthen MDC's ability to serve the telecommunications market — has required substantial outlays of cash and is creating a need for borrowing in 1984. This need will be increased by the leasing of MD-80 jetliners to airline customers. We expect that MDC will be borrowing heavily throughout 1984, but the corporation's borrowing capacity is more than adequate to meet the need.

On 17 October approximately 7,000 employees belonging to the United Auto Workers began a strike at MDC's facilities in Long Beach, Calif., Tulsa, Okla., and Melbourne, Ark. During the third week of January 1984, union locals in Melbourne and Tulsa voted to return to work. Strikers in Long Beach, however, did not vote to accept the corporation's contract offer until 9 February. The strike will cause delays in deliveries of MD-80s and KC-10s and will result in increased costs associated with the resumption of full production and the acceleration of manufacturing to recover time lost in the delivery schedule. This will have an adverse impact on 1984 earnings and could affect 1985 earnings.

Though the variety of challenges confronting us in 1983 was unusually broad, the men and women of MDC responded with the resourcefulness and dedication that have always been among their outstanding qualities. We are pleased by and grateful for the adaptability demonstrated by all elements of the corporation as we achieved substantial earnings gains in the difficult environment of the past year. We are confident that each of our lines of business has prepared the way for additional gains in the months and years ahead.

Chairman
and Chief Executive Officer

President

10 February 1984

On 27 January 1984 the Board of Directors voted to increase the dividend by 14%, to 40.5 cents from 35.5 cents per share quarterly.

COMBAT AIRCRAFT



F-15 Eagle



F/A-18 Hornet



AV-8B Harrier II

F/A-18 HORNET: Successful aircraft carrier qualifications by U.S. Navy and Marine Corps pilots marked a smooth introduction of the F/A-18 strike fighter into fleet operations in 1983.

Four Navy and Marine Corps squadrons started operational service with Hornets during the year, and their performance brought high compliments to the aircraft. The F/A-18 was praised for having the best safety record to date of any new aircraft and for surpassing all expectations in ordnance delivery accuracy, air combat maneuvering, and maintenance and reliability standards.

Hornets recorded between two and three times the reliability of other fleet aircraft and required only half as much maintenance.

At year-end MDC was delivering F/A-18s at a rate of seven per month. Hornet deliveries reached a total of 146, including 24 CF-18s for Canada. In the fall of 1984 the Royal Australian Air Force is to accept the first of two Hornets to be delivered from MDC's St. Louis facilities, and preparations are continuing for final assembly in Australia of another 73 RAAF F/A-18s.

In May Spain signed a contract valued at \$2.7 billion for 72 EF-18s and an option for an additional 12. Deliveries to Spain will begin in 1986.

AV-8B HARRIER II: The U.S. Marine Corps in 1983 took delivery of the first production AV-8B Harrier II advanced vertical/short takeoff and landing (V/STOL) fighter and the first AV-8B systems trainer. Assembly began in St. Louis on the first fuselage for a British version of the Harrier II.

MDC is principal contractor for a planned 328 AV-8Bs for the Marine Corps, with production scheduled into the 1990s. MDC is principal subcontractor to British Aerospace on an additional 62 Harrier IIs to be built for the Royal Air Force.

In April the Spanish government announced its intention to acquire 12 AV-8Bs from MDC in a transaction valued at \$378 million.

The U.S. Navy funded simulation of a radar-equipped AV-8B in MDC's Manned Air Combat Simulator, and the Marine Corps ordered 14 sets of new, lightweight test equipment developed by MDC. This equipment can analyze AV-8B avionics 20 times faster than that previously used.

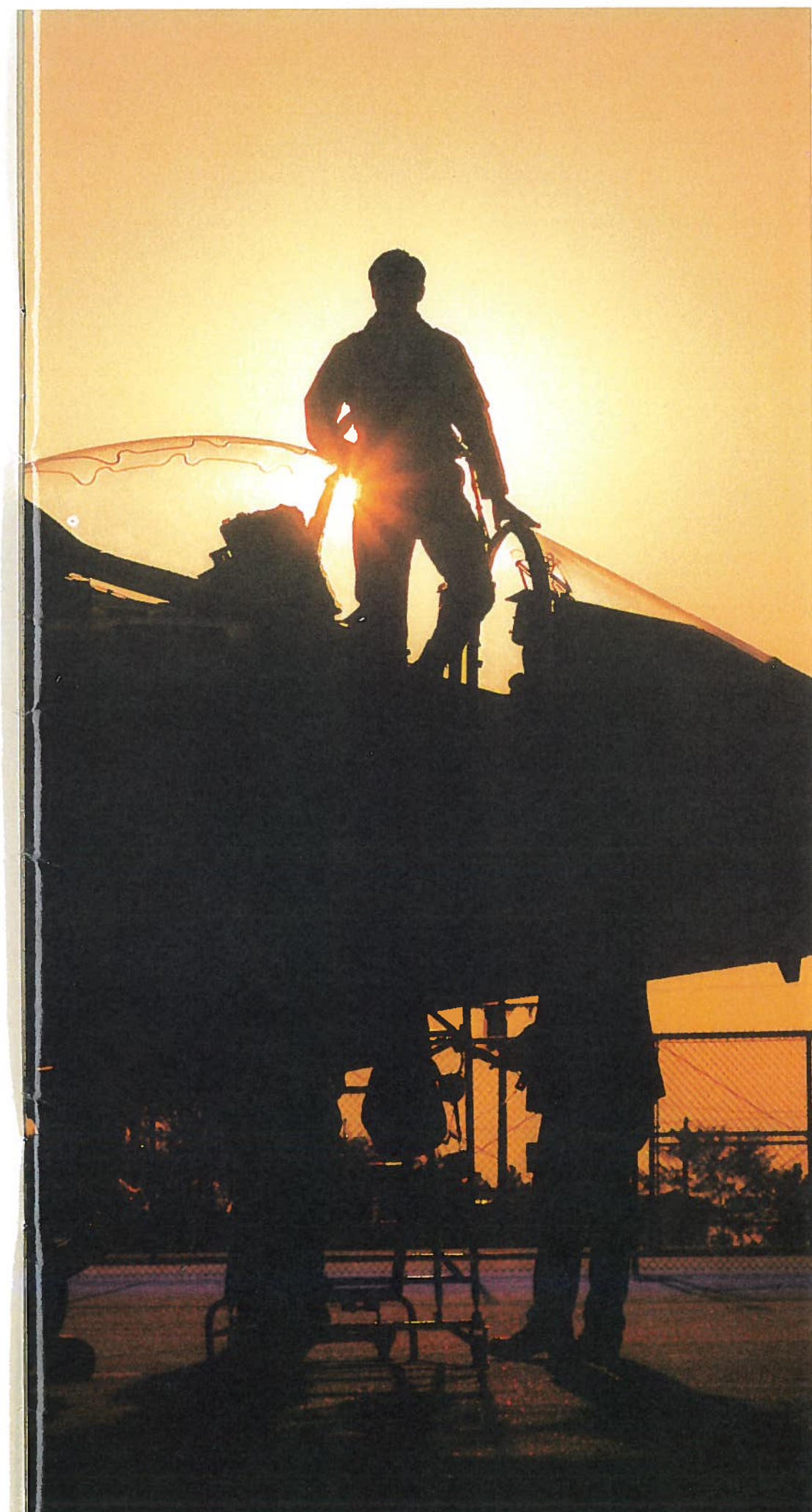
At year-end AV-8B flight testing was nearly 75% complete, and Harrier IIs had accumulated 1,400 flight hours.

F-15 EAGLE: Developments along two lines important to the F-15's future were notable during 1983. One would further enhance the air superiority capabilities which have led to the Eagle's reputation as the world's best fighter. The other would broaden the F-15's applications by giving it a new combat role.

Contracts valued at \$279.4 million awarded to MDC in December raised to \$366.1 million the total authorized for the air superiority program, which includes upgrading the Eagle's radar, central computer and programmable armament control system.

Also in December MDC completed proposals to the Air Force for a new dual-role fighter version of the F-15. This new Eagle would be capable of accurate strikes on long-range, all-weather missions against relatively small, mobile ground targets while retaining superior air-to-air maneuverability and weapons capabilities.

The F-15 dual-role fighter, a result of eight years of design and development work, would enable pilots to use daylight tactics at night and in poor weather with heavy weapons loads. It includes auxiliary fuel tanks which conform to the shape of the Eagle's fuselage, forward-looking infrared capability, and an advanced technology aft cockpit. A drag-reduction breakthrough successfully flight tested in 1983 allows weapons to be attached directly to the conformal fuel



tanks in an arrangement called tangential carriage. This new configuration increases the dual-role Eagle's range by some 40%.

MDC, in response to an Air Force request, also proposed development of an Eagle as a short takeoff and landing (STOL) and maneuvering technology demonstrator. This F-15 would feature thrust-directing engine nozzles and small moveable surfaces forward of the wing. Together these would substantially increase maneuverability in flight and reduce the Eagle's required takeoff and landing distances.

MDC delivered 58 F-15s in 1983, and as of 31 December had delivered a total of 834 to the Air Force and foreign customers. Congress funded production of 36 F-15s in its fiscal year 1984 appropriations.

T-45TS: Engineering development of the aircraft element of the U.S. Navy's jet trainer aircraft and pilot training system will continue in 1984 with \$26.2 million appropriated by Congress. The program, formerly called VTXTS, will incorporate a single version of the T-45 aircraft, a British Hawk trainer modified to be fully capable of aircraft carrier operations.

The Navy is studying the feasibility of having the T-45 Training System in service by mid-1991. MDC leads the T-45TS industrial team, which includes British Aerospace, Rolls Royce, and Sperry.

ACES II: MDC delivered 348 Advanced Concept Ejection Seats (ACES II) for tactical aircraft in 1983, and received \$20 million for additional seats. A proposal on the more advanced Crew Escape System Technologies (CREST) program was submitted to the U.S. Air Force, and source selection is expected by mid-1984.



KC-10 tanker-cargo aircraft

TRANSPORT AIRCRAFT

MD-80: The twin-engine MD-80 jetliner began its fourth year of airline service during 1983 with a broad customer base of 29 airlines in North and South America, Europe and Asia.

Fifty new MD-80s were delivered to 11 airlines in 1983, compared with 44 twin-jet deliveries in 1982. Thirteen of the 1983 deliveries were leased to Trans World or American Airlines.

In addition, three previously delivered MD-80s were refurbished by MDC and delivered to different operators.

Firm orders for MD-80s increased by 43 in 1983, compared with 84 a year earlier. Customers ordering new MD-80s for the first time included the General Administration of Civil Aviation of China (CAAC), Alisarda of Italy, Texas Air Corporation, Ozark Air Lines and Alaska Airlines. Alaska placed the first orders for the MD-83 version.

Design engineering and manufacturing development of the longer-range MD-83 were completed during 1983, and production of components for the first aircraft began. Certification flight testing is scheduled for late 1984, and first delivery for the spring of 1985.

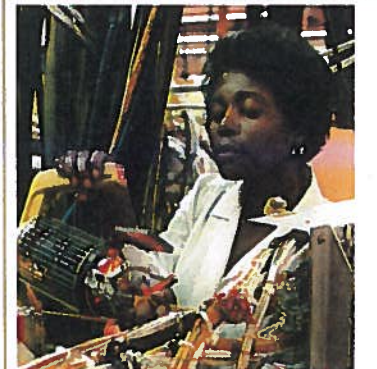
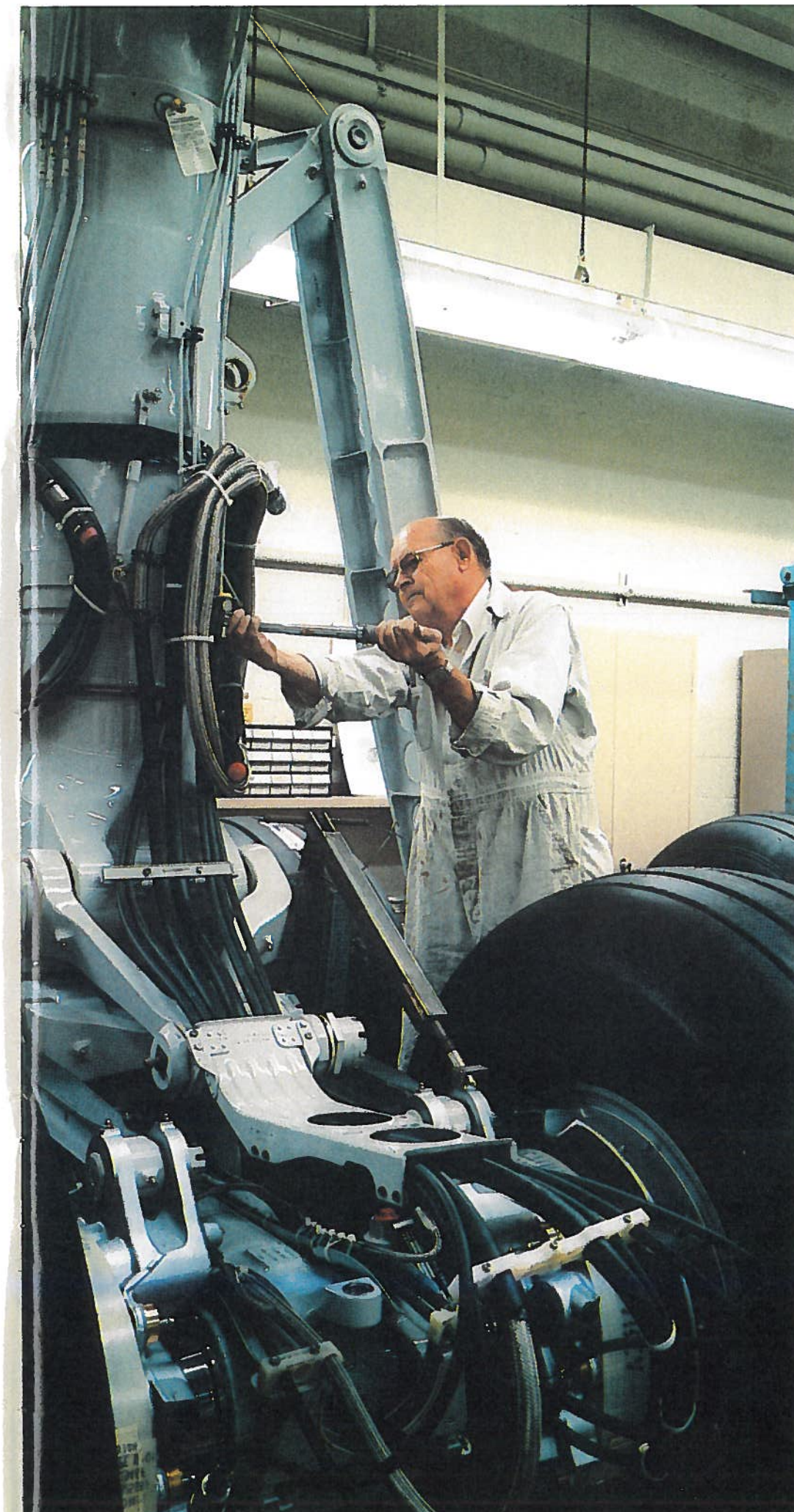
In December, CAAC took delivery of two MD-80s and Shanghai Aircraft Industrial Corporation signed a letter of intent for China's third MD-80. The letter also provides for a co-production program on an additional 25 MD-80s to be assembled for CAAC in China, and options which would extend the co-production to 40 aircraft.

A final contract for this co-production, the first such arrangement in the aerospace field between a U.S. company and a People's Republic of China corporation, is expected to be negotiated by mid-1984.

As of 31 December 1983, MD-80 program status included 61 firm orders, 17 aircraft being built for short-term lease, 38 conditional orders and options, and 151 deliveries for a total of 267 aircraft.



MD-80 jetliner





Tomahawk cruise missile

KC-10 EXTENDER: Eight KC-10 tanker/cargo aircraft were delivered to the U.S. Air Force in 1983, bringing to 20 the total delivered from an authorized purchase of 60. Late in the year eight KC-10s scheduled for delivery in 1984 and 1985 were funded, along with long-lead items required for aircraft to be delivered through 1987.

One firm order for a commercial DC-10, from which the KC-10 was developed, was received from Ghana Airways during 1983. No firm orders for DC-10s were received in 1982. Four DC-10s, including Ghana's Series 30, two Series 15s and one Series 40, were delivered in 1983.

C-17: Late in 1983 Congress appropriated \$26.8 million for continued engineering development of the C-17, which the U.S. Air Force has selected as its advanced cargo aircraft. Wind tunnel tests, construction of mock-ups, thrust reverser model testing and subsystem tests are in progress.

The C-17 is expected to be a key element in the future mobility of U.S. ground forces. Its ability to use small, austere airfields in sustained operations will make possible forward-area airlift support on a scale not available today.

Assuming continued Congressional approval, full-scale engineering development of the C-17 will be funded in the government's fiscal year 1985 budget in support of an Air Force goal of having the first C-17 squadron in service by late 1991.

PROPFAN: MDC is accelerating studies of an advanced propulsion system employing a new, multi-bladed propeller called a propfan which could provide fuel savings of up to 35% compared with today's jets. A proposal was submitted to the National Aeronautics and Space Administration (NASA) for evaluation and flight test. Propfan technology is applicable to both civil and military transports.

SPACE SYSTEMS AND MISSILES



Harpoon anti-ship missile

HARPOON: The Harpoon continued to demonstrate its flight reliability in 1983 with 34 successes in 35 launches.

Now the U.S. Navy's most widely used anti-ship missile, Harpoon was operational on 223 ships and submarines and 209 airplanes at year-end. Twelve allied nations were deploying Harpoon on 128 naval vessels and 30 airplanes.

The U.S. Air Force successfully tested the Harpoon on B-52 bombers in 1983. Thirty of the aircraft are scheduled to be equipped with the missile by mid-1985.

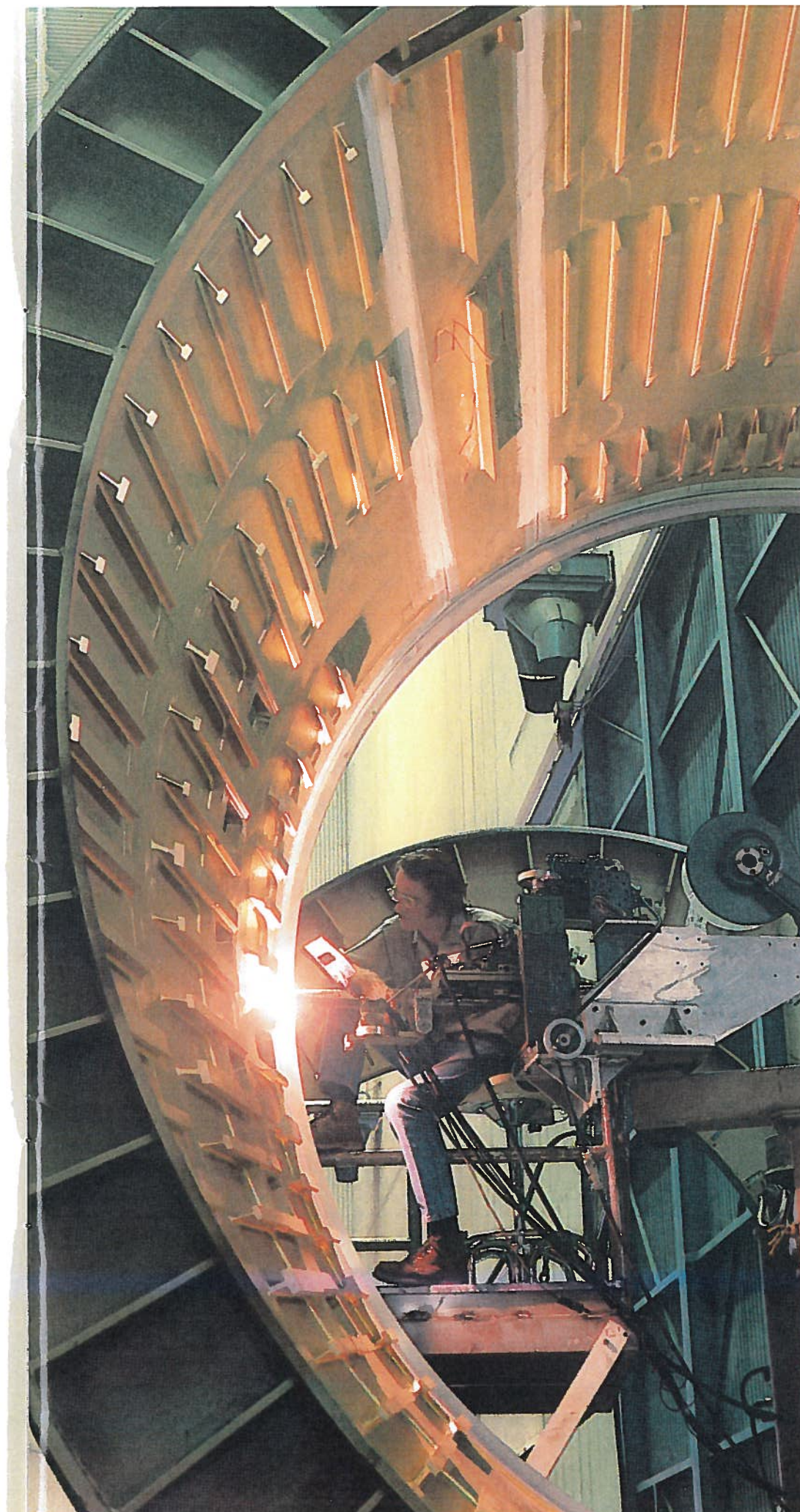
At the end of 1983, the thirteenth year of the program, 3,440 Harpoons had been ordered and more than 2,800 delivered.

TOMAHAWK CRUISE MISSILE: MDC's Tomahawk production facility at Titusville, Fla., was dedicated in 1983 just one year after groundbreaking, and production of the first complete Tomahawk is scheduled for 1984. The Navy plans to initiate a limited competition for full production contracts in fiscal year 1985.

MDC in 1983 was named Tomahawk weapon systems engineering and integration agent, responsible for design integrity and performance requirements for the total Tomahawk weapon system. As part of this contract, MDC is responsible for integration of the system on ships.

EOS: MDC's Electrophoresis Operations in Space (EOS) project, based on a device that separates biological materials for use as pharmaceuticals, completed three flight tests in 1983 on the space shuttle. In space, the device achieved more than four times the purity levels and more than 700 times the quantity possible from similar operations on Earth. In addition the device demonstrated that it can separate live cells; this may make it possible for researchers to obtain purified living cells needed for treatment of some diseases.

An MDC engineer, Charles Walker, was selected to become the first industry-sponsored astronaut to fly on a shuttle mission. As payload specialist, he will



operate the EOS device for 100 hours during a seven-day mission scheduled for June 1984. Materials separated on this mission will be used by Ortho Pharmaceutical Corporation, MDC's partner on the EOS program, for clinical testing of the first space-manufactured product.

DELTA: The Delta launch vehicle ran its record of consecutive successful space missions to 39 in 1983 with eight launches. This marked the sixth consecutive year of flawless Delta performance, a record unequaled by any other large multi-stage launch system.

Four Delta launches are scheduled for 1984, and two additional launches are planned for 1986, but the operational capability of the space shuttle is expected to end production of Delta for NASA in 1984. It is possible that production could be extended under commercial agreements.

PAM: In 1983 MDC's Payload Assist Module (PAM), the world's first commercially developed space vehicle, successfully placed six satellites in orbit, three from the space shuttle and three as the third stage of Delta launchers.

A new double-PAM configuration called SGS-II, developed for the U.S. Air Force, launched a navigational satellite into orbit in 1983 from an Atlas rocket. Three more Air Force launches of SGS-II are planned for 1984.

The Air Force also began procurement in 1983 for another PAM derivative, the PAM-DII, which can boost payloads weighing up to 4,160 pounds. The Air Force plans to launch a series of 28 navigational satellites with PAM-DII, for which five commercial orders also have been placed. Launches of PAM-DII from the shuttle will begin in 1985.

More than 75 firm or potential PAM missions have been identified. PAM commercial orders under contract are valued at about \$210 million.

SPACE SHUTTLE: MDC plans to form a new subsidiary to compete for the prime contract for refurbishment of the space shuttle's reusable solid rocket booster structures. The new unit, called McDonnell Douglas Booster Assembly Company (MDBAC), will have offices in Florida and Alabama and will submit a proposal to NASA in March. Contractor selection is expected in mid-1984.

The NASA program, which could generate revenues of more than \$1 billion, will involve engineering, procurement, refurbishment and assembly of 84 sets of the boosters, with options to follow.

MAST MOUNTED SIGHT: The first four of MDC's Mast Mounted Sights for U.S. Army helicopters were delivered under a \$64.2 million contract in 1983. Two models for aerodynamic testing and two complete units went to Bell Helicopter Textron under a 41-month full-scale engineering development effort that is part of the Army's Helicopter Improvement Program.

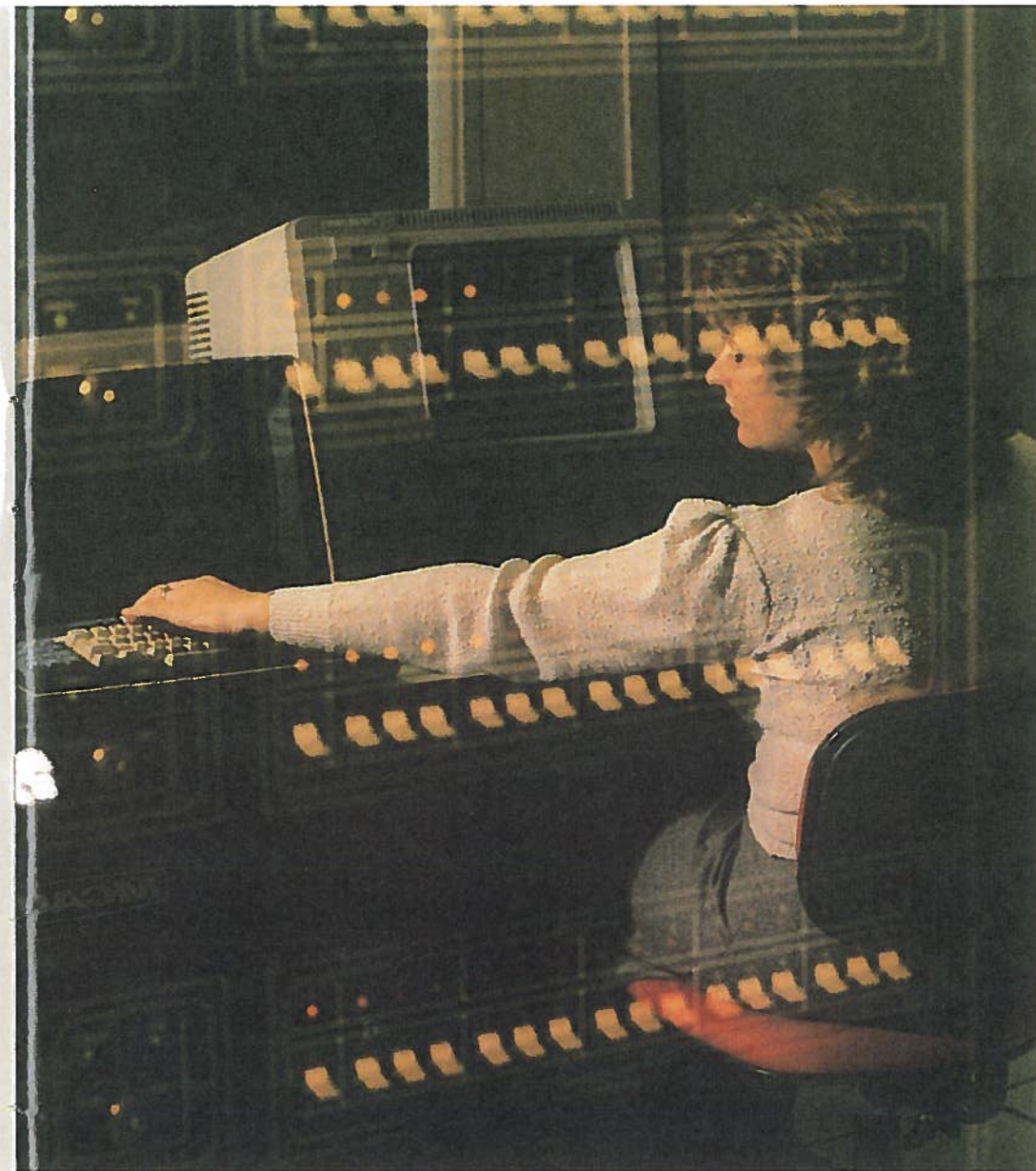
The spherical sight, positioned above a helicopter's rotor, uses a breakthrough stabilization technique which virtually isolates it from helicopter vibration. Day or night, it provides sharp, all-weather pictures even in hazy battlefield environments and uses a laser to designate targets with precision.

The sight had logged 75 flight hours by year-end. The Army plans to sign in 1984 a full production contract with a potential value of more than \$800 million.

SPACE STATION: MDC completed in 1983 a space station mission analysis study for NASA. The study examines possible payloads and uses for a permanent, orbiting manned space station. Requests for proposals are expected in 1984 for the definition phase of the project. If developed, the station could serve as a base for a variety of scientific and commercial functions including MDC's EOS project.

SMAW: MDC completed development of the Shoulder-launched Multi-purpose Assault Weapon (SMAW) for the U.S. Marine Corps in 1983 and received a production go-ahead under a \$7.7 million contract for 225 launchers, 4,900 SMAW rockets, and training hardware. Deliveries begin in 1984, and Marine Corps plans call for production through the 1980s.

DRAGON: The U.S. Army awarded MDC a \$19 million contract for the repair and reassembly of 21,000 rounds for the Dragon anti-tank weapon.



INFORMATION SYSTEMS

MDC's varied activities in the information systems field produced revenues of \$542.5 million in 1983, up from \$474.2 million in 1982.

One of the two elements of the corporation specializing in information systems, McDonnell Douglas Automation Company (McAuto), had a loss for 1983 as a whole. Most of this loss occurred in the first half of the year, and McAuto responded with cost-cutting measures including the first layoffs in its history. The company achieved a small profit in the fourth quarter and had introduced stringent hiring controls and an employee retraining program as an alternative to additional layoffs.

Products and services offered by McAuto include computer processing, software, professional services and turnkey systems that combine hardware purchased from other companies with McAuto-developed software. Microdata, a wholly owned MDC subsidiary also specializing in information systems, sells hardware and software based on its REALITY®, SEQUEL™ and SOVEREIGN™ hardware and the REALITY operating system. It also sells application packages for businesses in a variety of industries including manufacturing, medicine, distribution, education, advertising and trucking.





In April Microdata launched a new major account sales program for its SOVEREIGN and SEQUEL systems. This program, aimed at divisions of the largest corporations in the U.S., is modeled on a strategy that Microdata has pursued successfully in Great Britain.

SOVEREIGN is a distributed data processing (DDP) system that features volume data entry, source data entry, and advanced office automation functions for large companies. Its local area network architecture provides a high degree of growth flexibility. SEQUEL is MDC's most powerful data base oriented transaction processing system. Its inherent data base management capability, coupled with its ENGLISH® retrieval language, is moving the power of the computer from the computer room to the desks of executives and professionals.

MDC plans to focus McAuto and Microdata increasingly on specific industries. Industries currently being served are:

HEALTH CARE: MDC now serves one out of every five hospitals in the United States. In 1983 the corporation acquired a minority interest in Sanus Corp., which provides packaged health care delivery programs as alternatives to traditional systems.

TELECOMMUNICATIONS: Telecommunications revenues from MDC's supplying of information systems to telephone companies amounted to \$50 million in 1983.

Deregulation of the telecommunications industry is expected to help revenue growth. Revenues in this field will be substantially increased as a result of the January 1984 acquisition for \$69.2 million of Computer Sharing Services, Inc. of Denver, which had 1983 revenues of about \$35 million. CSS provides computer systems and data processing services to telephone companies and other commercial customers. Its acquisition increases MDC's capabilities in a promising area.

MANUFACTURING: Revenues from Unigraphics® computer-aided design and manufacturing (CAD/CAM) products increased by 50% in 1983 to a total of \$62 million. The acquisition of Insight Technology, Inc., augmented MDC's CAD/CAM capabilities.

INSURANCE: Activities aimed at government customers and their health insurance needs incurred substantial losses in 1983. These losses were caused in part by the transfer of New York State Medicaid operations from New York City to Albany, in part by the development costs of an unsuccessful bid to administer California's health plan.

COMMERCIAL FINANCING AND LEASING

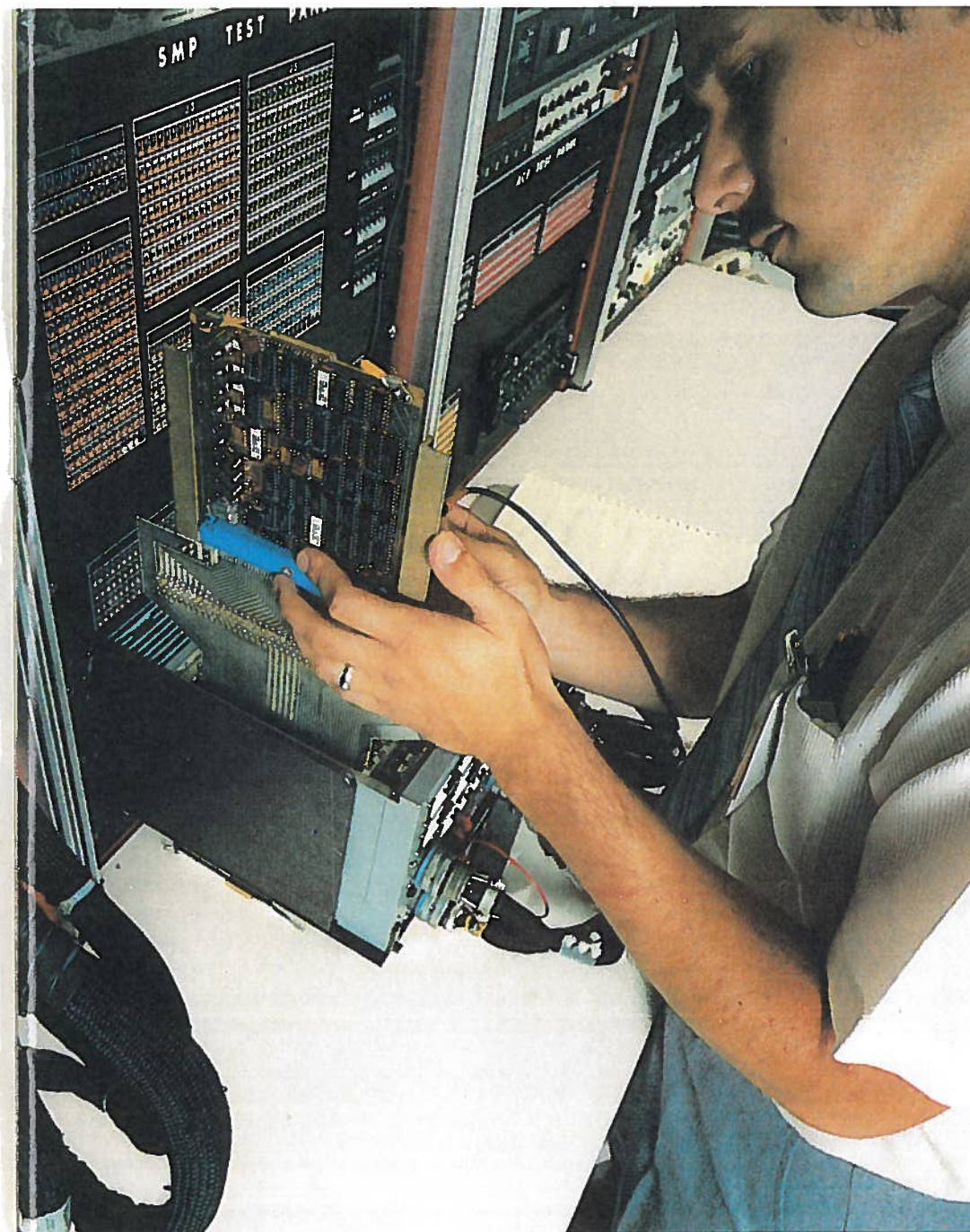
McDonnell Douglas Finance Corporation earnings increased in 1983 to \$20.3 million compared with \$16.1 million in 1982. MDFC ended the year with investments in receivables and leases of \$999.3 million, compared with \$817.7 million in 1982.

In January 1983 MDFC purchased Brind Leasing Corporation, a full-service truck leasing company headquartered in Philadelphia. Brind in September bought Riteway Rentals, Inc., a similar business based in New Jersey. Combined revenues for 1984 are expected to exceed \$40 million.

MDFC's earnings growth was achieved through increases in portfolio size and yield and a decrease in the effective rate of interest on borrowings. Operating expenses rose by 114% during 1983, due primarily to inclusion of the expenses of the full-service truck leasing operations acquired during the year and to additional personnel and facilities made necessary by a higher level of business activity.

Total volume of new business in 1983 was \$263.9 million, a 20.1% increase over the 1982 total of \$219.7 million. As of 31 December, 56.6% of the total financing portfolio of \$949 million consisted of commercial and industrial financing and 43.4% was related to financing of MDC aircraft.

A separate MDFC annual report is available upon request. A condensed financial report on MDFC is presented on page 24.



OTHER DIVERSIFICATION

LABORATORY TESTING: Revenues for MDC's VITEK subsidiary rose 66% in 1983. The number of AutoMicrobic Systems (AMS™) in use in medical laboratories increased by 47%. Shipments of AMS test kits, used in the automated identification of pathogens and appropriate antibiotics, increased 68%. VITEK's first instrument sales to the cosmetics and pharmaceuticals industries were achieved in 1983, expanding the application of AMS technology to the quality control testing of a variety of products.

VISUAL SIMULATION SYSTEMS: MDC continued to hold its share of the computerized visual simulation business in terms of numbers of systems sold despite a decline in the commercial airline segment of the market in 1983. Sales included three VITAL systems to CAE Electronics Ltd. for MD-80 twin-jet simulators, two to the Royal Australian Air Force for F/A-18 Hornet simulators, and three to the U.S. Navy.



MDC IS PEOPLE



Behind 1983's sales and earnings are the thousands of men and women who made the year a success. Here are some of the people behind the numbers, along with examples of their dedication to MDC and the communities in which they live:

Walter Schremp, a branch manager, wasn't content with the way his department distributed reports. He developed a new method which saved the corporation nearly \$100,000. In doing so he became one of the more than 13,000 individuals who participated in the Employee Suggestion Program in 1983. Their improvements saved the corporation \$10.3 million — and netted them more than \$900,000 in cash awards.

Bill Korff, a project manager, was determined not to let criminals slip through the cracks of the justice system. He and his MDC teammates created a computerized booking system for the New York City Police department. In addition to reducing the time an officer spends making reports, the On-Line Booking System automatically checks an arrested person's name against lists of outstanding warrants.

Five teammates received the coveted title of MDC Fellow in November 1983 for their research achievements. Honored were Saul Fast for work in communications and electronic warfare; James G. Laird for achievements in electronics; Miklos Sajben for research in aerodynamics; John C. Weitekamp for his role in the flight performance of the space shuttle; and Clarence J. Wolf for breakthroughs in the development of carbon-epoxy composites.

They brought to 15 the number of MDC Fellows appointed since the program was instituted in 1982. Those previously named are Eugene C. Adam, Tuncer Cebeci, William K. Douglas, James I. Gimlett, Virgil V. Griffith, John Mackey, Francis D. McVey, Daniel L. Rosamond, Robert J. Sunderland and Rainer Zuleeg.

The VITEK team decided to make the holidays brighter for needy families. They dressed more than 500 dolls and donated more than 2,500 pounds of food, roughly 10 pounds per employee. In all, MDC people donated about 10,000 pounds of food to the annual pre-Christmas Operation Helping Hand charity drive.

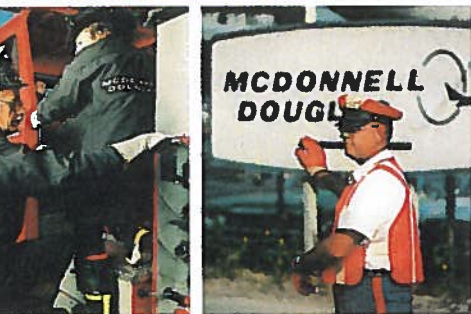
MDC people know how to drum up new business. Fifteen of them, for example, developed an analytical approach to identifying all training requirements — from avionics instruction to repair — for the F/A-18 Hornet. Their innovative system has generated more new training business than any other program to date.

It's a labor of love for some 20 West Coast employees. They've been volunteering their free time to restore one of the five DC-2s left in the world. Several MDC suppliers have donated parts and materials for the project.

Slowly but surely, Rick Funderburg and his turtle, Redneck, have been capturing racing titles across the nation. They even won a demanding 500-inch event in Memphis, Tennessee. Funderburg races Redneck to raise money for the Judevine Center for Autistic Children.

In 1974, Virgil Griffith and Hal Simpkins took literally the challenge to go fly a kite. Their impromptu class on what makes a kite fly at St. Joseph's Institute for the Deaf turned into a popular kite-building workshop. Today, MDC volunteers help the youngsters design and construct colorful kites in the shape of dragons, diamonds, boxes and birds.

When Thelma Brewer is excited, she talks with her hands. The daughter of deaf parents, Mrs. Brewer has taught an MDC-sponsored Voluntary Improvement Program course in sign language for two years. This year, Brewer and many of her "graduates" are teaching elementary computer language to deaf Explorer Scouts.



HUGHES HELICOPTERS, INC.

MDC diversified further into the aerospace industry with the purchase on 6 January of Hughes Helicopters, Inc., from the estate of Howard R. Hughes. The price was approximately \$470 million.

Hughes Helicopters has about 5,800 employees and major facilities in Culver City, California, and Mesa, Arizona. It manufactures military and commercial helicopters and a family of weapons based on its proprietary Chain Gun® technology.

A key factor in the acquisition is the new AH-64 Apache advanced attack helicopter which Hughes Helicopters manufactures for the U.S. Army. The two-place, turbine-powered AH-64 is equipped with infrared, laser and other high technology systems to seek out and destroy enemy armored vehicles at night and in adverse weather.

The first operational versions of the AH-64, in development since 1973, are being delivered to the Army this year. Congress has already appropriated \$3 billion to cover the production of the first 171 Apaches, and the Department of Defense has approved plans to acquire a total of 515 with a program value of more than \$7 billion through 1988. In addition, Hughes Helicopters anticipates follow-on U.S. Army purchases that would bring its total inventory of Apaches to over 1,000, and substantial international sales are a possibility.

Primarily as a result of the Apache program, Hughes Helicopters 1984 sales are expected to be substantially higher than 1983's \$571 million and 1982's \$347 million. Twenty Apaches are scheduled for delivery in 1984, and 80 are to be delivered in 1985.

Hughes Helicopters is expected to be a major competitor in the LHX (light helicopter-experimental) program, which is aimed at replacing much of the Army's present helicopter inventory starting in the early 1990s. The combination with MDC will strengthen Hughes Helicopters in the competition for this multi-billion-dollar program, which could involve up to 6,000 helicopters.

Key elements of the LHX program are expected to be an advanced cockpit to permit operation by a single crew member and the extensive use of composite materials for reduced weight and added strength. Advanced simulation facilities will be required for the development program. MDC has designed and built highly integrated one-man cockpits for the F-15 and F-18, is the world's leading producer of aerospace composite parts, and operates the world's largest and most advanced manned air combat simulator.

Hughes Helicopters is a leader in the manufacture of light single-turbine helicopters, used by both military and commercial customers. Hughes delivered 102 of these Series 500 helicopters in 1983. The 500E executive model is the official helicopter of the 1984 Olympics.

In the company's ordnance line are 30 mm, 25 mm, and 7.62 mm Chain Gun ordnance systems for use on the Apache, the Bradley Fighting Vehicle and light armored vehicles, the Hughes 500MD light military helicopter and Navy ships.

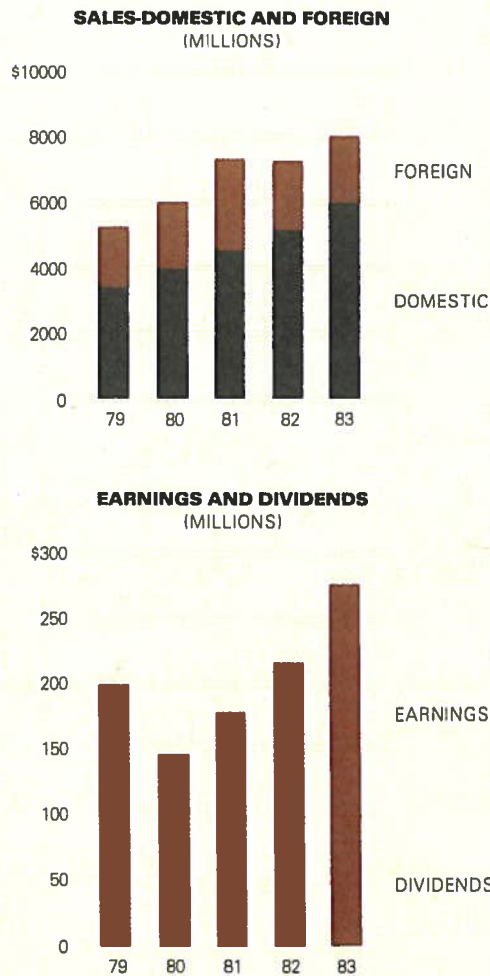
Hughes Helicopters traces its origins to 1934 when Howard Hughes began work on his first aircraft, the H-1 Racer. It flew its first helicopter, the XH-17 Flying Crane, in 1952 and soon thereafter split off from Hughes Aircraft Company. To date the company has built more than 6,000 helicopters.

MDC's experience with helicopters actually predates that of Hughes. The McDonnell Aircraft Corporation, forerunner of MDC, began work on helicopters in 1943 and built several prototypes including the world's first twin-engine helicopter, the world's first ramjet helicopter and the world's first successful convertiplane.



AH-64 Apaches

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



The following should be read in conjunction with the consolidated financial statements, particularly the Selected Financial Data by Industry Segments presented on page 28.

FINANCIAL CONDITION

MDC's capital at the end of 1983 totalled \$2,146.0 million: \$2,067.9 million in shareholders' equity and \$78.1 million in debt. Cash and short-term investments amounted to \$407.2 million, and unused lines of credit totalling \$550.0 million were in place with 18 banks.

Of the 35 MD-80 aircraft MDC had committed to build and lease to American Airlines and Trans World Airlines at the beginning of 1983, 18 had been delivered by the end of the year. Of these, MDC was leasing 13 and others were leasing 5. MDC's investment in the remaining leases could be as much as \$350.0 million.

In the first week of 1984, MDC expended \$472.3 million to acquire the capital stock of Hughes Helicopters, Inc. and pay off its borrowings, and \$69.2 million to acquire the capital stock of Computer Sharing Services, Inc. These amounts were obtained by liquidating short-term investments and borrowing approximately \$207.0 million under bank lines of credit.

Payment for the two acquisitions, completion of the current MD-80 leasing program, planned facilities acquisitions, and increased investments in combat aircraft and helicopter programs will require substantial funds during 1984. MDC expects to borrow heavily throughout 1984, but internal cash flows and borrowing capacity are expected to be more than adequate to meet these requirements.

RESULTS OF OPERATIONS

Sales and other income in 1983 was approximately 11% over 1982 and 1981 results. The major gain continued to be in the combat aircraft segment from the F-18 Hornet program but increases were achieved in all segments.

Operating earnings were up about 26%. Combat aircraft and space systems and missiles earnings increased. Losses were reduced in transport aircraft but increased in the other industries segment. Factors affecting these results are discussed under the segment headings that follow.

Net earnings increased 28% in 1983, compared with 22% in both 1982 and 1981. Operating earnings (after income taxes) contributed about three-fourths of the 1983 increase. Increases in interest income and MDC's net earnings, and a decrease in interest expense accounted for the balance.

An extended strike by members of four United Auto Workers locals will adversely affect 1984 earnings, and the effect may extend into 1985.

Combat Aircraft. Sales and other income increased 18% in 1983 and 12% in 1982. The major 1983 increase was in the F-18 Hornet program; smaller gains in the AV-8B Harrier were more than offset by declines in the F-15 Eagle and F-4 Phantom programs.

Earnings from operations were 23% higher in 1983 than in 1982, reflecting a small increase in the earnings margin. The gross margin on the F-18 program improved in 1983, though it is still low for a major aircraft production program.

Transport Aircraft. Sales and other income increased slightly in 1983 despite the fact that 13 MD-80s were leased rather than sold. The 1983 loss from operations was substantially lower than 1982's. However, most of the reduction is attributable to the provisions for probable losses from commercial aircraft financing. The provisions were \$15 million in 1983 and \$30 million in 1982.

MDC and its financial subsidiaries are leasing aircraft to, and holding or guaranteeing securities of, several airlines reported to be in financial difficulties. However, no material losses were incurred in 1983.

As noted above, the strike has adversely affected production costs. Increased unit costs will continue until the workforce regains former productivity levels. In addition, there will be delays in aircraft deliveries.

MDC announced in November 1983 that it had discontinued development of the proposed MD-90 and MD-100 jetliner programs. It reaffirmed plans to continue production of the MD-80, including possible improved versions, while pursuing military transport aircraft programs and new aerospace technology programs.

Space Systems and Missiles. Sales and other income increased only 3% in 1983, much less than the 1982 increase of 37%. The 1983 increases in the Tomahawk and Harpoon programs were largely offset by decreases in older programs. Earnings from operations increased 13% in 1983 and 37% in 1982.

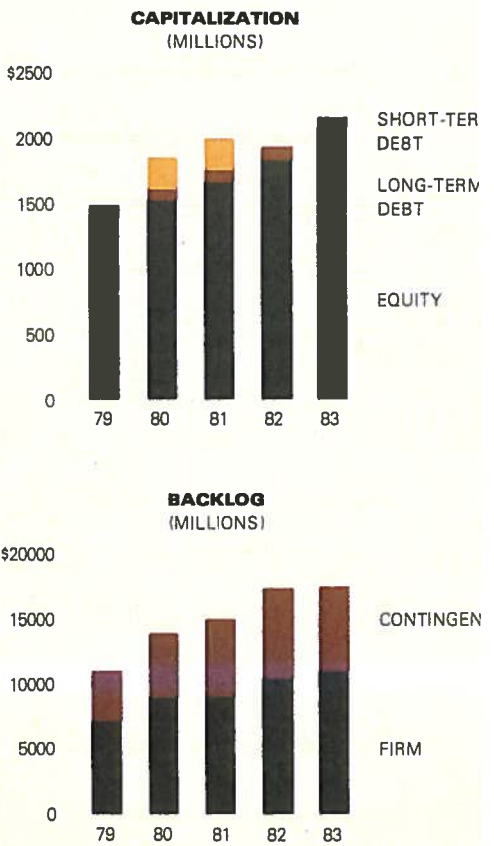
Other Industries. Though this segment's sales and other income increased 14% in 1983, and though it had operated near breakeven the previous year, it had a 1983 loss amounting to 2.5% of revenue. This resulted from large losses by McAuto during the year's first half. In the second half the segment had an aggregate operating profit of \$1 million.

Non-Operating Income and Expenses. MDC's net earnings for 1983 were 26% higher than in 1982, its previous record year. This increase was principally from internal growth and improvement in the spread between earning asset and borrowed money interest rates.

Other non-operating income increased principally as a result of interest earned on short-term investments. Interest expense was less because MDC had no short-term debt in 1983 and, largely because of conversions of debentures, less long-term debt. The provision for income taxes was higher due to higher earnings.

INFLATION

The discussion of the effects of inflation and changing prices on MDC, together with related supplementary financial data, is presented on page 29.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

31 December

1983

1982

Dollar amounts in millions

Current Assets

Cash and time deposits	\$ 26.2	\$ 29.7
Short-term investments	381.0	256.9
Accounts and notes receivable		
Government	354.5	314.7
Commercial	233.5	205.1
Recoverable income taxes	17.1	20.8
	<u>605.1</u>	<u>540.6</u>
Contracts in process and inventories		
Government contracts in process	3,335.3	3,121.7
Commercial products in process	791.6	1,312.3
Materials and spare parts	1,143.1	1,096.4
Progress payments to subcontractors	949.1	776.7
Less applicable progress payments	<u>(4,314.5)</u>	<u>(3,871.1)</u>
	1,904.6	2,436.0
Prepaid expenses	23.4	15.6
Total Current Assets	<u>2,940.3</u>	<u>3,278.8</u>

Facilities

Land	54.8	54.7
Buildings and fixtures	685.8	578.9
Machinery and equipment	1,301.5	1,082.0
Less accumulated depreciation	<u>(1,028.6)</u>	<u>(886.2)</u>
	1,013.5	829.4

Other Assets

Investment in and advances to MDFC	142.2	222.9
Rental equipment and parts	391.4	117.1
Deferred charges	41.3	35.8
Other	<u>263.1</u>	<u>137.8</u>
	838.0	513.6

Total Assets

\$4,791.8

\$4,621.8

See accompanying notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY

31 December

1983

1982

Dollar amounts in millions

Current Liabilities

Accounts and drafts payable	\$ 568.5	\$ 635.5
Accrued expenses	122.6	138.7
Employee compensation	190.3	178.1
Income taxes, principally deferred	732.4	682.7
Estimated modification, completion, and other contract adjustments	1,032.0	1,063.2
Current maturities of long-term debt	<u>18.1</u>	<u>33.7</u>
Total Current Liabilities	<u>2,663.9</u>	<u>2,731.9</u>

Long-Term Debt

4¾% Convertible subordinated debentures	9.7	27.7
Other	<u>50.3</u>	<u>42.6</u>
	60.0	70.3

Shareholders' Equity

Preferred Stock, \$1.00 par value:		
Shares authorized: 10,000,000		
Shares issued: None		
Common Stock, \$1.00 par value:		
Shares authorized: 60,000,000		
Shares issued: 1983 - 39,468,147 shares;		
1982 - 39,333,898 shares	39.4	39.3
Capital in excess of par value	372.2	362.4
Earnings retained for growth	1,662.8	1,443.6
Translation of foreign currency statements	(6.5)	(5.0)
Less cost of 812,170 treasury shares		<u>(20.7)</u>
Total Shareholders' Equity	<u>2,067.9</u>	<u>1,819.6</u>

Total Liabilities and Shareholders' Equity

\$4,791.8

\$4,621.8

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Years Ended 31 December	1983	1982	1981
	<i>Dollar amounts in millions</i>			
Common Stock	Beginning balance	\$ 39.3	\$ 39.3	\$ 39.3
	Conversion of debentures - 1983, 96,700 shares	.1		
	Stock options exercised - 1983, 35,185 shares			
	Incentive compensation awards - 1983, 2,364 shares			
		<u>39.4</u>	<u>39.3</u>	<u>39.3</u>
Capital in Excess of Par Value	Beginning balance	362.4	360.0	346.7
	Conversion of debentures	4.8	.8	7.7
	Stock options exercised	3.8	.9	3.1
	Incentive compensation awards paid	1.2	.7	2.5
		<u>372.2</u>	<u>362.4</u>	<u>360.0</u>
Earnings Retained for Growth	Beginning balance	1,443.6	1,276.5	1,141.1
	Net earnings	274.9	214.7	176.6
	Cash dividends declared	(55.7)	(47.6)	(41.2)
		<u>1,662.8</u>	<u>1,443.6</u>	<u>1,276.5</u>
Translation of Foreign Currency Statements	Beginning balance	(5.0)	(3.2)	.2
	Effect of fluctuations in foreign exchange rates	(1.5)	(1.8)	(3.4)
		<u>(6.5)</u>	<u>(5.0)</u>	<u>(3.2)</u>
Treasury Shares	Beginning balance	(20.7)	(19.1)	(14.6)
	Purchased - 1983, 51,090 shares;			
	1982, 413,592 shares; and 1981, 526,524 shares	(2.6)	(12.1)	(15.3)
	Conversion of debentures - 1983, 492,230 shares;			
	1982, 164,460 shares; and 1981, 472,486 shares	13.1	4.2	6.8
	Stock options exercised - 1983, 292,692 shares;			
	1982, 158,117 shares; and 1981, 174,562 shares	8.2	3.9	2.6
	Incentive compensation awards - 1983, 78,338 shares;			
	1982, 98,873 shares; and 1981, 96,884 shares	2.0	2.4	1.4
		<u>.0</u>	<u>(20.7)</u>	<u>(19.1)</u>
Shareholders' Equity		<u>\$2,067.9</u>	<u>\$1,819.6</u>	<u>\$1,653.5</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended 31 December	1983	1982	1981
	<i>Dollar amounts in millions</i>			
Source of Funds	From operations:			
	Net earnings	\$ 274.9	\$214.7	\$176.6
	Earnings retained by MDFC	(20.3)	(16.1)	(13.4)
	Depreciation of facilities	163.7	147.2	123.0
	Depreciation of rental equipment	47.6	25.9	18.8
	Stock issued to employees	3.2	3.1	3.9
	Other	5.4	7.6	6.6
		<u>474.5</u>	<u>382.4</u>	<u>315.5</u>
	Contracts in process and inventories, net of progress payments	531.4	52.4	
	Facilities sold	3.9	14.3	8.2
	Advances repaid by MDFC	101.0	117.5	
	Rental equipment and parts sold	39.7	17.8	7.5
	Other investments	4.4		
Use of Funds	Other current liabilities		325.7	310.0
	Long-term borrowings - net		14.8	25.1
	Proceeds of stock options exercised	12.0	4.8	5.7
	Miscellaneous	.1	11.6	3.6
		<u>1,167.0</u>	<u>941.3</u>	<u>675.6</u>
	Accounts and notes receivable	188.5	31.5	48.2
	Contracts in process and inventories, net of progress payments			72.7
	Facilities acquired	351.6	261.9	233.8
	Advances to MDFC			92.7
	Rental equipment and parts	361.7	57.1	100.1
	Other investments			58.3
	Other current liabilities	52.4		
	Long-term borrowings - net	7.8		
Net Change	Cash dividends declared	55.7	47.6	41.2
	Treasury shares purchased	2.6	12.1	15.3
	Miscellaneous	26.1	15.9	12.0
		<u>1,046.4</u>	<u>426.1</u>	<u>674.3</u>
	Net change in cash, short-term investments and short-term borrowings	<u>\$ 120.6</u>	<u>\$515.2</u>	<u>\$ 1.3</u>
Analysis of Net Change	Increase in cash and short-term investments	\$ 120.6	\$271.2	\$ 4.0
	Increase (decrease) in short-term borrowings		(244.0)	2.7
Net Change		<u>\$ 120.6</u>	<u>\$515.2</u>	<u>\$ 1.3</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended 31 December		1983	1982	1981
<i>Dollar amounts in millions, except share data</i>				
Income	Sales	\$8,111.0	\$7,331.3	\$7,384.9
	Other income	181.8	120.9	116.4
		8,292.8	7,452.2	7,501.3
Costs and Expenses	Cost of products and services	6,753.5	6,084.1	6,296.4
	Research and development	301.2	254.1	215.7
	General and administrative	792.7	762.4	687.6
	Interest and debt expense	10.0	26.7	69.8
	Income taxes	160.5	110.2	55.2
		8,017.9	7,237.5	7,324.7
Earnings	Net earnings	\$ 274.9	\$ 214.7	\$ 176.6
	Earnings per share	\$6.91	\$5.44	\$4.44
<i>See accompanying notes to consolidated financial statements</i>				

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 1983

Dollar amounts in millions, except share data

SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of McDonnell Douglas Corporation (MDC) and all of its significant subsidiaries except McDonnell Douglas Finance Corporation (MDFC), which is accounted for on the equity basis. In consolidation, significant intercompany items and transactions are eliminated.

Long-Term Notes Receivable. Long-term notes receivable, acquired by MDC primarily from sales of commercial aircraft, are recorded at their fair market value. Most notes are transferred to MDFC or its export finance subsidiary at that value.

Long-Term Contracts. In accordance with industry practice, long-term Government contracts and commercial aircraft programs are classified as current assets or liabilities in the balance sheet, even though a substantial portion is not expected to be realized within one year.

Adjustments of costs and earnings may be made during and after completion of such long-term contracts; therefore, earnings recorded in the current year may include adjustments applicable to sales recorded in prior years.

Government Contracts. Government contracts are primarily accounted for on a percentage-of-completion method wherein sales are recorded at their estimated

contract price as the work is performed. Under this method, all costs (including general and administrative expenses) are charged to Costs and Expenses as incurred and the recorded sales values (equal to incurred costs plus estimated earnings) are carried in the account, Government contracts in process. At the time the item is completed and accepted by the customer, the sales value of the item is transferred to accounts receivable.

Certain contracts contain incentive provisions which provide increased or decreased earnings based upon performance in relation to established targets. Incentives based upon cost performance are recorded currently and other incentives are recorded when the amounts can reasonably be determined.

Title to certain items, included in the captions of Materials and Progress payments to subcontractors, is vested in the U.S. Government by reason of progress payment provisions of related contracts.

Commercial Programs. Commercial products in process (including military versions of commercial aircraft) are stated on the basis of production and tooling costs incurred less cost allocated to delivered items, reduced (where applicable) to realizable market after giving effect to the estimated costs of completion.

Cost of sales for commercial and military MD-80 aircraft is determined on a specific-unit cost method. Cost

of sales of the DC-10 aircraft program, including KC-10 aircraft, is determined on a program-average cost method. Inasmuch as the DC-10 program involves several models with differing sales prices and costs, and the contracts contain escalation clauses based upon the future cost of materials and labor, the cost of sales for a particular aircraft is computed at the percentage of the sales price that the total of the estimated tooling and production costs for the entire program bears to the total estimated sales price for all aircraft in the program.

Materials and spare parts are stated at the lower of cost (priced generally on a moving average method) or market.

Foreign Currency Translation. The U.S. dollar is deemed to be the functional currency of MDC's principal foreign operations and, as such, does not give rise to translation adjustments upon consolidation. Foreign currency statements of other subsidiaries are translated to U.S. dollars for consolidation and the translation adjustment resulting from the fluctuation in the exchange rate for that currency from the previous year is carried directly to shareholders' equity under a separate caption.

Income Taxes. United States and foreign income taxes are computed at current tax rates on reported earnings, less investment and other tax credits. Adjustments to such tax computations are made currently for all items whose income tax treatment creates a permanent difference between taxable income and reported income, but are not made for items that create only timing differences between fiscal periods.

The investment tax credits arising from commercial aircraft tooling and leased aircraft are deferred and amortized as reductions of income tax provisions, and all other credits are recorded in the current period.

The undistributed earnings of foreign subsidiaries are considered to be permanently invested; accordingly, no provisions are made for taxes which would become payable upon the distribution of such earnings as a dividend to MDC. To the extent that DISC (Domestic International Sales Corporation, as defined in Section 992 of the Internal Revenue Code) income is expected to be reinvested and remain tax exempt, no provisions for income taxes thereon are made. MDC files a consolidated return for federal and certain state income taxes, and dividends from subsidiaries included therein are not subject to income tax.

Facilities. Facilities are carried at cost and depreciated over the useful lives of the various classes of properties, using primarily accelerated methods.

Earnings Per Share. Earnings per share computations are based upon (i) the weighted average of common stock and common stock equivalents outstanding

during the period and (ii) net earnings after adjustment for interest and debt expense on the common stock equivalents less applicable income taxes. Common stock equivalents include the shares reserved for conversion of the 4¾% Convertible Subordinated Debentures and the net increase in shares from exercise of stock options, assuming all dilutive options had been exercised and the proceeds used to purchase other shares. For primary earnings per share, purchases of shares with option proceeds were assumed to have been made at the average market price and, for fully-dilutive earnings per share, at the higher of the year-end or average market price; however, both primary and fully-diluted computations have resulted in the same earnings per share.

1984 ACQUISITIONS

On 4 January 1984, MDC acquired for \$69.2 million in cash all of the common stock of Computer Sharing Services, Inc., which principally provides computer services to the telecommunications industry.

On 6 January 1984, MDC acquired all of the common stock of Hughes Helicopters, Inc., and contributed to Hughes amounts to enable it to repay certain borrowings for an aggregate sum of \$472.3 million in cash. Hughes produces a new AH-64 Apache advanced attack helicopter for the U.S. Army and a lightweight single-engine turbine helicopter for worldwide military and civilian customers.

These acquisitions will be accounted for as purchases and, accordingly, the acquired assets will be restated to appraised values. It is expected that approximately half the purchase prices will be assigned to intangible assets, such as program values and software, which will be amortized over the next five to ten years.

GOVERNMENT CONTRACTS

Contractual authority to supply additional items, or to change the work scope of a contract, prior to reaching final agreement on price is a frequent and normal occurrence in procurements by the U.S. Government, as the contracts contain standard provisions for assuring that the contractor will receive an equitable price in the unusual event a mutually satisfactory price cannot be subsequently negotiated with the Contracting Officer.

Included in Accounts receivable was \$69.1 million at 31 December 1983 and \$73.1 million at 31 December 1982 representing the estimated sales price for items delivered and other work performed, which was not billable because the negotiated price information or documents necessary to invoice under the contract had not been received. Approximately \$8.6 million of the 1983 amount is expected to be collected after one year. In addition, a material portion of the Government contracts in process account similarly represented work performed before the pricing, negotiation and

contract documentation cycle had been completed, but the aggregate amount thereof was not identifiable as such in the accounting records.

No material amounts were included in Receivables or Government contracts in process representing retainage for which appropriated funds were not available or the item was otherwise in controversy, other than in respect to normal price negotiations.

COMMERCIAL AIRCRAFT PROGRAMS

At 31 December 1983, the backlog of firm orders for undelivered MD-80 commercial transport aircraft was 61 compared to 50 a year earlier. In addition, domestic airlines have contracted with MDC to lease 35 MD-80s, under nominal five-year leases which include cancellation privileges and penalties, and options for renewals for up to 17 more years. Of the 18 aircraft which have been delivered under this leasing program, MDC is leasing 13 and others, five.

At 31 December 1983, there were no DC-10 orders or options; however, the accounts included the costs to produce two DC-10 aircraft for which no customer had placed an order and two used DC-10 aircraft repurchased from a customer.

A multi-year government contract was received in 1982 for 44 KC-10 aircraft, the cargo-tanker version of the DC-10. The backlog of 40 KC-10 aircraft at the end of the year was scheduled for delivery in 1984 through 1987.

INVESTMENT IN FINANCE SUBSIDIARY

The investment in MDFC was represented by a capital investment of \$80.0 million and earnings retained for growth of \$62.3 million at 31 December 1983 and \$52.9 million at 31 December 1982. The condensed financial data presented below have been summarized from the audited consolidated financial statements of MDFC:

31 DECEMBER	1983	1982
ASSETS		
Cash	\$ 26.1	\$ 24.8
Notes and leases receivable - net	826.5	720.3
Accounts with MDC	62.4	47.6
Investment in operating leases	148.1	78.7
Other assets	20.8	11.2
Total	<u>\$1,083.9</u>	<u>\$882.6</u>
LIABILITIES AND EQUITY		
Short-term notes payable:		
MDC	\$	\$ 20.0
Other	130.4	125.1
Accounts payable and accrued expenses	44.4	26.4
Deferred income tax items	255.6	203.5
Long-term debt:		
Senior - MDC		70.0
Senior - Other	459.3	274.7
Subordinated notes payable	52.0	30.0
Shareholder's equity	142.2	132.9
Total	<u>\$1,083.9</u>	<u>\$882.6</u>

YEARS ENDED 31 DECEMBER	1983	1982	1981
Operating income	\$114.7	\$94.8	\$74.8
Costs and expenses	90.5	76.6	59.6
Net earnings	20.3	16.1	13.4

CREDIT ARRANGEMENTS AND SHORT-TERM BORROWINGS

At 31 December 1983, MDC had open lines of credit of \$500.0 million with seventeen U.S. banks. Under these lines of credit, borrowings bear interest at the individual bank's current prime rate or at money market rates. MDCAN had a similar agreement with a Canadian bank for an open line of credit of \$50.0 million with borrowings guaranteed by MDC. No borrowings were outstanding at 31 December 1983.

As compensation for extending these lines of credit, MDC has agreed with each bank either to maintain unrestricted compensating balances, or to pay fees, at rates which vary with each bank's prime rate. For the year ended 31 December 1983, fees of \$.8 million and average deposits of approximately \$4.6 million plus float and other credits, were required to fulfill these requirements.

INCOME TAXES

Provisions for income taxes were at an effective rate of approximately 37% (34% in 1982 and 24% in 1981), which is less than the United States corporate rate of 46%, and the underlying causes of this difference and their effect on the income tax provisions are shown below:

YEARS ENDED 31 DECEMBER	1983	1982	1981
Pro forma income tax computed at U.S. corporate rates on pretax earnings	\$200.3	\$149.5	\$106.6
State income taxes net of federal tax benefit	<u>10.2</u>	<u>8.4</u>	<u>7.9</u>
	210.5	157.9	114.5
Less:			
Tax effect of permanent differences:			
Net earnings of MDFC	9.3	7.4	6.2
DISC tax-exempt income	15.0	15.0	25.0
Other - net	4.5	5.5	2.2
Tax rate differentials	(3.4)	(1.3)	5.9
Tax credits	<u>24.6</u>	<u>21.1</u>	<u>20.0</u>
	50.0	47.7	59.3
Income tax provision	<u>\$160.5</u>	<u>\$110.2</u>	<u>\$ 55.2</u>

At 31 December 1983, the undistributed earnings of subsidiaries which would be taxable under the Internal Revenue Code if distributed, but for which no provision for income taxes has been provided, amounted to \$323.2 million for DISCs and \$70.8 million for foreign subsidiaries.

MDC's foreign operations which directly result in measurable foreign pretax earnings are not significant. The provision for foreign income taxes is based principally upon taxable intercompany sales and earnings that are eliminated in consolidation. These foreign operations consist of the manufacture of components used in domestic production, export marketing activities and technical, training, and support services related to exported products or to foreign licensing agreements.

Taxable income is determined for all long-term contracts using the completed contract method, and the difference between the methods used to determine income from long-term contracts for tax reporting and the financial statements is treated as a timing difference and is the principal factor underlying the deferred tax liability. The tabulation below presents a summary of the factors (estimated for 1983 and restated for 1982 and 1981 to the amounts shown on the tax returns filed) that contributed to the differences between the income taxes payable for the year and provisions for such taxes.

YEARS ENDED 31 DECEMBER	1983	1982	1981
United States corporation income tax:			
Current taxes:			
Tax for consolidated group	\$ 12.5	\$.8	\$.7
Net credit for unconsolidated subsidiaries for effect of including their operations in consolidated return	<u>57.1</u>	<u>43.4</u>	<u>42.2</u>
	69.6	44.2	42.9
Deferred taxes:			
Net effect of timing differences:			
Uncompleted contracts	(35.0)	117.0	139.1
Other inventory valuations	(53.1)	(75.7)	(102.4)
DISC deemed dividends	15.9	24.7	(.9)
Tax credit carryovers	115.3	(35.4)	(17.1)
ACRS	14.6	5.4	2.7
Other	<u>7.4</u>	<u>7.5</u>	<u>(25.3)</u>
	65.1	43.5	(3.9)
Investment tax credits deferred, less amortization	<u>1.2</u>	<u>1.0</u>	<u>(2.3)</u>
	135.9	88.7	36.7
Deferred foreign income taxes	5.7	5.9	3.9
State income taxes:			
Current	34.8		
Deferred	<u>(15.9)</u>	<u>15.6</u>	<u>14.6</u>
	18.9	15.6	14.6
Income tax provision	<u>\$160.5</u>	<u>\$110.2</u>	<u>\$ 55.2</u>

STOCK OPTIONS

Options to purchase MDC Common Stock have been granted to officers and employees at 100% of current market prices, pursuant to plans approved by shareholders. A summary of options for MDC Common Stock is shown below:

YEARS ENDED 31 DECEMBER	1983	1982
Granted:		
Number of shares	153,133	457,071
Price per share	\$50	\$29
Exercised:		
Number of shares	327,877	158,117
Price per share	\$24 - \$44	\$21 - \$29
31 DECEMBER	1983	1982
Outstanding:		
Number of shares	750,136	977,595
Price per share	\$27 - \$50	\$24 - \$44
Exercisable:		
Number of shares	604,029	491,314
Price per share	\$27 - \$44	\$24 - \$44

Stock appreciation rights were granted for 56,567 shares in February 1983 and 96,438 shares in February 1982 at the current market prices. These rights become exercisable 18 months after grant.

RESERVED COMMON SHARES

At 31 December 1983, authorized and unissued shares of MDC Common Stock have been reserved for conversions of the 4¾% Convertible Subordinated Debentures, 315,331 shares; contributions to the MDC Salaried Savings Plan; 757,070 shares; and stock awards and options granted or authorized to be granted, 2,394,017 shares.

RETIREMENT PLANS

Substantially all employees of MDC and its subsidiaries are members of defined benefit pension plans, including several multi-employer and foreign plans. MDC makes contributions to its significant domestic pension plans and accrues pension expense in equal amounts based upon independent actuarial valuations, using the aggregate cost method without supplemental liability. Under this method, future contributions necessary to provide for plan benefits will be made during the remaining service lives of the active employees, as a level percentage of estimated future earnings or annual cost per member depending on the benefit formula.

The total pension expense was \$197.1 million for 1983, \$195.7 million for 1982, and \$194.3 million for 1981.

Accumulated plan benefits and plan net assets as of the anniversary dates for which actuarial studies have been completed, for MDC's significant domestic defined benefit plans are presented below:

30 NOVEMBER	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	\$1,651.8	\$1,514.4
Nonvested	<u>221.7</u>	<u>211.4</u>
	<u>\$1,873.5</u>	<u>\$1,725.8</u>
Net assets available for benefits	<u>\$2,508.7</u>	<u>\$2,000.7</u>

In accordance with Statement of Financial Accounting Standards No. 36, no future service or wage increases were considered in computing the accumulated plan benefits. A weighted average rate of return of 8% was used in both years to discount the accumulated plan benefits to present value.

CUSTOMER FINANCING COMMITMENTS

The marketing of commercial aircraft at times will result in agreements to provide or guarantee long-term financing of some portion of the delivery price of aircraft or to guarantee lease payments and tax benefit transfers. At 31 December 1983, \$196.1 million of such guarantees were outstanding. Commitments of \$43.2 million were also outstanding to accept notes in payment for aircraft or to guarantee financing for customers, relating to ordered but undelivered aircraft.

LEGAL PROCEEDINGS

Northrop Corporation initiated litigation on 26 October 1979 in the United States District Court in Los Angeles, California, concerning the rights and obligations of the parties with respect to the production and sale of F-18 aircraft under certain agreements and conduct of the parties related to such agreements and aircraft. MDC counterclaimed. On 2 December 1980, before trial, the Court dismissed Northrop's complaint and MDC's counterclaims on various grounds, and also granted summary judgment with respect to other of Northrop's claims and MDC's counterclaims. On 28 February 1983 the Ninth Circuit Court of Appeals reversed the District Court and remanded the matter to the District Court. Both parties have filed amended pleadings. Northrop now seeks damages in an amount not less than \$100.0 million on each of several counts, treble and punitive damages, an award of profits of MDC on the F-18 program, and declaratory, injunctive, and other equitable relief. MDC has denied Northrop's allegations and claims and has counterclaimed. MDC is requesting declaratory and injunctive relief, damages in amounts exceeding \$250.0 million on each of several counts, and treble and punitive damages. Northrop has denied these allegations and claims. MDC's outside counsel is of the opinion, based on discovery to date and its analysis of the facts and law, that MDC has meritorious defenses to the Northrop claims against MDC and that MDC's claims against Northrop are meritorious. In its opinion the ultimate resolution of Northrop's claims and MDC's counterclaims will not have a material adverse effect on the financial position of the Company. MDC is a defendant in a number of other legal proceedings in which substantial amounts are sought. Much of such litigation is covered by insurance. MDC anticipates that the amounts, if any, which may be

required to be paid as a result of any of these proceedings will not be material in relation to the financial position of MDC.

LEASED PROPERTIES

The aggregate rental expense for leased properties was as follows:

YEARS ENDED 31 DECEMBER	1983	1982	1981
Minimum rentals	\$98.2	\$102.4	\$92.7
Contingent rentals	1.3	3.1	3.2
Sublease rental income	(17.1)	(14.1)	(12.4)
	<u>\$82.4</u>	<u>\$ 91.4</u>	<u>\$83.5</u>

Minimum rentals include periodic rentals, and, in the case of computers and office equipment, usage charges. Contingent rentals represent payments to the United States Government under a lease, and under facilities contracts where payments are made only for usage on non-government work.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at 31 December 1983 aggregated \$102.4 million, and payments due during the next five years were: 1984, \$28.0 million; 1985, \$22.1 million; 1986, \$13.6 million; 1987, \$9.5 million; and 1988, \$6.2 million.

U.S. GOVERNMENT AND EXPORT SALES

Consolidated sales to U.S. Government agencies (including sales to foreign governments through foreign military sales contracts with U.S. Government agencies) amount to \$5,506.7 million in 1983, \$4,857.5 million in 1982, and \$4,362.4 million in 1981. No other single customer accounted for 10% or more of consolidated revenues in 1983, 1982 or 1981.

Foreign sales by geographical area, of which a significant portion were through foreign military sales contracts with the U.S. Government, are shown in the table below:

YEARS ENDED 31 DECEMBER	1983	1982	1981
North America	\$ 732.3	\$ 508.7	\$ 576.5
South America	18.0	57.0	111.9
Europe	462.2	519.1	757.5
Asia/Pacific	397.3	305.0	493.9
Mideast/Africa	494.9	686.7	829.3
	<u>\$2,104.7</u>	<u>\$2,076.5</u>	<u>\$2,769.1</u>

REPORT OF ERNST & WHINNEY, INDEPENDENT AUDITORS

Shareholders and Board of Directors
McDonnell Douglas Corporation
St. Louis, Missouri

We have examined the consolidated statement of financial position of McDonnell Douglas Corporation and consolidated subsidiaries as of 31 December 1983 and 1982, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended 31 December 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of McDonnell Douglas Corporation and consolidated subsidiaries at 31 December 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended 31 December 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

St. Louis, Missouri
26 January 1984

REPORT OF MANAGEMENT RESPONSIBILITIES

The financial statements of McDonnell Douglas Corporation and consolidated subsidiaries have been prepared under the direction of management in conformity with generally accepted accounting principles and, particularly with respect to long-term contracts and programs, include amounts based upon estimates and judgments. The integrity and objectivity of data in these financial statements is the responsibility of management and, in the opinion of management, the financial statements set forth a fair presentation of the consolidated financial condition of MDC at 31 December 1983 and 1982 and the consolidated results of its operations for the years ended 31 December 1983, 1982 and 1981.

MDC and its consolidated subsidiaries maintain accounting systems and related internal accounting controls which, in the opinion of management, provide reasonable assurances that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that assets are properly accounted for and safeguarded.

The Board of Directors has appointed three of its non-employee members as an Audit Committee. This Committee meets periodically with management and the internal and independent auditors. Both internal and independent auditors have unrestricted access to the Audit Committee to discuss the results of their examinations and the adequacy of internal accounting controls. In addition, the Audit Committee makes its recommendations as to the selection of independent auditors to the Board.

SELECTED FINANCIAL DATA BY INDUSTRY SEGMENTS

Financial data related to combat aircraft, transport aircraft, space systems and missiles, and all other industry segments are shown below. The captions, combat and transport aircraft, were shown as military and commercial aircraft in prior years, and the amounts restated were those applicable to military versions of DC-series aircraft. These data were developed by classifying each division and subsidiary according to its principal products and combining related operations into industry segments; consequently the segment data include immaterial amounts related to other products and services. Intersegment transfers were immaterial and principally made at cost.

The combat aircraft segment's products include the design, development and production of attack and

fighter aircraft. The attack and fighter aircraft cover a full spectrum of missions (air superiority, close-support, reconnaissance, electronic countermeasures, etc.) and include land-based and aircraft-carrier based versions and the latest in vertical-takeoff-and-landing technology. The transport aircraft segment's products were primarily DC-series aircraft (including military versions), spare parts and related services. The space systems and missiles segment's products include advanced studies and development and production of satellite launching vehicles, space shuttle components and payloads, laser communications, space manufacturing processes, ballistic missile defense systems and tactical and strategic missiles. The caption, Other industries, presents non-reportable segments which are engaged in computer sales and services, electronics and other industries.

	Sales and Other Income			Earnings			Firm Backlog*		
	1983	1982	1981	1983	1982	1981	1983	1982	1981
<i>Dollar amounts in millions</i>									
Combat aircraft	\$4,394.8	\$3,719.2	\$3,329.1	\$372.9	\$303.6	\$296.9	\$ 6,874.2	\$ 6,933.9	\$6,065.8
Transport aircraft	1,894.3	1,857.4	2,774.4	(51.9)	(69.7)	(116.8)	2,679.1	2,265.6	1,814.2
Space systems and missiles	1,349.9	1,305.5	952.9	97.1	85.9	62.5	1,180.6	965.2	900.2
Other industries	603.4	530.2	397.4	(15.3)	(.4)	17.1			
Operating revenues/earnings	8,242.4	7,412.3	7,453.8	402.8	319.4	259.7			
Net earnings of MDFC	20.3	16.1	13.4	20.3	16.1	13.4			
Non-operating income	30.1	23.8	34.1	30.1	23.8	34.1			
General corporate expenses				(7.8)	(7.7)	(5.6)			
Interest and debt expense				(10.0)	(26.7)	(69.8)			
Income taxes				(160.5)	(110.2)	(55.2)			
	<u>\$8,292.8</u>	<u>\$7,452.2</u>	<u>\$7,501.3</u>	<u>\$274.9</u>	<u>\$214.7</u>	<u>\$176.6</u>	<u>\$10,733.9</u>	<u>\$10,164.7</u>	<u>\$8,780.2</u>

	Assets*			Facilities Acquired			Depreciation of Facilities		
	1983	1982	1981	1983	1982	1981	1983	1982	1981
<i>Dollar amounts in millions</i>									
Combat aircraft	\$4,579.5	\$3,771.6	\$2,421.0	\$ 73.8	\$ 82.0	\$ 79.2	\$ 43.8	\$ 37.5	\$ 30.3
Transport aircraft	2,219.1	2,748.1	2,557.3	29.2	32.5	63.3	26.7	28.4	24.4
Space systems and missiles	988.7	803.6	692.1	96.4	37.0	20.4	22.8	19.1	15.9
Other industries	685.5	566.4	492.1	146.7	106.7	67.8	69.1	61.1	51.2
Used in operations	8,472.8	7,889.7	6,162.5	346.1	258.2	230.7	162.4	146.1	121.8
Less applicable progress payments	(4,314.5)	(3,871.1)	(2,236.1)						
Investment in and advances to MDFC	142.2	222.9	324.3						
Corporate	491.3	380.3	113.5	5.5	3.7	3.1	1.3	1.1	1.2
	<u>\$4,791.8</u>	<u>\$4,621.8</u>	<u>\$4,364.2</u>	<u>\$351.6</u>	<u>\$261.9</u>	<u>\$233.8</u>	<u>\$ 163.7</u>	<u>\$ 147.2</u>	<u>\$ 123.0</u>

*Amounts as of 31 December

INFLATION AND CHANGING PRICES

Generally accepted accounting principles, as used to prepare the consolidated financial statements, were never meant to measure the effects of inflation and changing prices on enterprises. The Financial Accounting Standards Board has an experiment in process to develop understandable measurements of the effects of inflation and the data for MDC using the methodologies prescribed in the Standard is presented in the table below.

MDC's aerospace business is performed under long-term production contracts under which labor, materials and other costs are incurred after the contract is awarded. Generally, the prices in such contracts either take into account the expected inflation of future costs or provide for an adjustment based on inflation occurring during the period of contract performance. In the latter case, the adjustment may be based on the inflation actually experienced by the company or on appropriate published indexes of price changes. Accordingly, in the preparation of the restated amounts, neither contracts in process and inventories nor cost of goods sold were restated to the general premise embodied in the Standard that inventory and cost of goods sold should be at replacement cost.

Assets and liabilities of MDC were segregated between monetary and nonmonetary items, with the gain or loss from holding monetary items during the year computed by using the CPI-U as the measure of the decline in purchasing power of the dollar. Contracts in process and inventories, except for the deferred production and tooling costs were included with other monetary items as being committed to long-term contracts in process. Facilities at the beginning and end of the year, and depreciation for the year, were to be determined in terms of both general inflation and current costs, and the net earnings for the year and net assets at the end of the year adjusted to reflect such redeterminations. The effect of general inflation was determined using the changes in the CPI-U since the dates assets were placed in service, and current costs by using internally-appraised values for land and published construction and wholesale price indexes for other facilities.

The inflation measurements presented below include no adjustment from historical costs for the deferred start-up costs of commercial aircraft programs, which are neither monetary assets, inventory, nor facilities as defined in the Standard.

SUPPLEMENTARY INFLATION DATA, IN AVERAGE 1983 DOLLARS

Years Ended 31 December	1983	1982	1981	1980	1979
<i>Dollar amounts in millions, except share data</i>					
Sales	\$8,111.0	\$7,567.4	\$8,089.4	\$7,334.8	\$7,245.3
Net earnings, reduced by the increase in depreciation computed as if facilities costs had been restated for:					
General inflation	235.3	182.9	157.4	138.6	243.6
—per share	5.91	4.65	3.96	3.51	6.19
Current cost	239.5	189.2	157.9	136.0	238.8
—per share	6.02	4.81	3.97	3.44	6.06
Net assets at year-end, adjusted to reflect the cumulative increase in facilities costs for:					
General inflation	2,361.4	2,064.4	1,979.4	1,972.9	1,989.4
Current cost	2,484.1	2,192.7	2,117.9	2,110.7	2,152.7
Annual increase in current cost of facilities, less the annual increase therein from general inflation	3.4	(6.4)	(26.6)	(44.6)	(17.0)
Gain (loss) from decline in purchasing power of net monetary assets	23.1	(25.2)	(49.8)	(49.6)	(22.8)
Cash dividends declared — per share	1.42	1.28	1.16	1.09	1.03
Market price of MDC Common Stock at year-end — per share	58.25	42.86	31.54	57.02	47.38
Consumer Price Index — Urban (1967 = 100%)	298.4%	289.1%	272.4%	246.8%	217.4%

In the end-of-year 1983 dollars, facilities net of depreciation was \$1,863.5 million on a current cost basis, and \$1,709.5 million on a general inflation basis. In average 1983 dollars, the increase in facilities in 1983 was \$54.5 million on a current cost basis and \$51.1 million on a general inflation basis; the increase in depreciation in 1983 from historical cost was \$35.4 million on a current cost basis and \$39.6 million on a general inflation basis.

TEN YEAR CONSOLIDATED FINANCIAL SUMMARY

	Years Ended 31 December	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
	<i>Dollar amounts in millions, except share data</i>										
Summary of Operations	Sales by class of products:										
	Combat aircraft	\$ 4,383.8	\$ 3,708.1	\$ 3,275.7	\$ 2,638.5	\$ 2,280.1	\$ 2,255.5	\$ 2,090.4	\$ 1,851.8	\$ 1,322.4	\$ 1,144.1
	Transport aircraft	1,801.9	1,810.4	2,771.6	2,274.6	1,989.0	985.6	719.8	1,098.9	1,396.6	1,410.8
	Space systems and missiles	1,341.9	1,298.6	952.1	830.2	789.7	720.0	595.7	482.7	454.5	450.0
	Computer services, electronics and other	583.4	514.2	385.5	323.0	219.7	169.2	138.9	110.3	82.2	70.1
	Total sales	8,111.0	7,331.3	7,384.9	6,066.3	5,278.5	4,130.3	3,544.8	3,543.7	3,255.7	3,075.0
	Cost of products and services	6,753.5	6,084.1	6,296.4	5,240.9	4,435.3	3,395.9	2,914.3	2,965.3	2,720.5	2,480.8
	Research and development	301.2	254.1	215.7	199.0	194.0	168.8	123.9	105.6	132.2	139.5
	Interest and debt expense	10.0	26.7	69.8	11.7	10.8	6.8	10.1	23.9	40.3	50.6
	Income taxes	160.5	110.2	55.2	13.1	111.4	120.3	93.4	70.8	40.1	70.6
	Net earnings	274.9	214.7	176.6	144.6	199.1	161.1	123.0	108.9	85.6	106.7
	Earnings per share	6.91	5.44	4.44	3.65	5.06	4.14	3.20	2.85	2.27	2.77
	Earnings as % of sales	3.39%	2.93%	2.39%	2.38%	3.77%	3.90%	3.47%	3.07%	2.63%	3.47%
	Earnings as a % of beginning equity	15.11%	12.98%	11.68%	10.49%	16.59%	15.26%	13.01%	12.85%	11.09%	15.48%
	Cash dividends declared	55.7	47.6	41.2	34.4	28.1	22.3	18.4	16.1	14.5	14.7
	Cash dividends declared per share	1.42	1.24	1.06	.90	.75	.60	.50	.44	.40	.40
Financial Position on 31 December	Current assets	\$ 2,940.3	\$ 3,278.8	\$ 3,014.2	\$ 2,919.8	\$ 2,580.8	\$ 2,480.1	\$ 2,018.3	\$ 1,721.8	\$ 1,813.6	\$ 1,807.2
	Facilities (net)	1,013.5	829.4	727.4	623.9	449.3	343.2	249.6	237.7	243.6	254.2
	Other assets	838.0	513.6	622.6	356.1	350.5	274.9	199.6	170.1	150.6	164.3
	Total assets	\$ 4,791.8	\$ 4,621.8	\$ 4,364.2	\$ 3,899.8	\$ 3,380.6	\$ 3,098.2	\$ 2,467.5	\$ 2,129.6	\$ 2,207.8	\$ 2,225.7
	Current liabilities	\$ 2,663.9	\$ 2,731.9	\$ 2,639.4	\$ 2,311.4	\$ 1,915.7	\$ 1,822.7	\$ 1,332.2	\$ 1,046.3	\$ 1,115.1	\$ 1,349.4
	Long-term debt	60.0	70.3	71.3	75.9	86.7	75.7	79.5	138.0	245.7	104.0
	Shareholders' equity	2,067.9	1,819.6	1,653.5	1,512.5	1,378.2	1,199.8	1,055.8	945.3	847.0	772.3
	Total liabilities and shareholders' equity	\$ 4,791.8	\$ 4,621.8	\$ 4,364.2	\$ 3,899.8	\$ 3,380.6	\$ 3,098.2	\$ 2,467.5	\$ 2,129.6	\$ 2,207.8	\$ 2,225.7
General Information	Shareholders' equity per share	\$ 52.39	\$ 47.24	\$ 42.93	\$ 39.50	\$ 36.75	\$ 32.23	\$ 28.53	\$ 25.73	\$ 23.23	\$ 21.31
	Expenditures for facilities (net)	\$ 347.7	\$ 247.6	\$ 225.6	\$ 265.9	\$ 156.7	\$ 142.1	\$ 54.8	\$ 40.9	\$ 33.1	\$ 35.0
	Depreciation of facilities	\$ 163.7	\$ 147.2	\$ 123.0	\$ 91.3	\$ 67.8	\$ 48.5	\$ 43.0	\$ 41.2	\$ 43.7	\$ 40.7
	Floor area, in millions of gross square feet	30.9	29.9	28.8	27.9	26.8	25.6	25.2	24.8	24.3	27.5
	Shares outstanding on 31 December <i>(in millions)</i>	39.4	38.5	38.5	38.3	37.5	37.2	37.0	36.7	36.5	36.2
	Shareholders of record on 31 December	42,682	48,611	52,934	54,420	57,631	57,496	62,432	66,637	72,765	72,672
	Personnel on 31 December	74,466	72,451	74,264	82,550	82,736	70,547	61,577	57,867	62,830	70,739
	Payroll	\$ 2,167.9	\$ 2,087.4	\$ 2,025.4	\$ 1,922.2	\$ 1,634.8	\$ 1,293.0	\$ 1,079.5	\$ 1,010.0	\$ 992.6	\$ 1,082.6
	Firm backlog on 31 December	\$ 10,733.9	\$ 10,164.7	\$ 8,780.2	\$ 8,737.7	\$ 6,909.2	\$ 5,980.9	\$ 4,597.2	\$ 2,966.8	\$ 2,922.8	\$ 3,176.6
	Total backlog on 31 December	\$ 17,337.9	\$ 17,181.0	\$ 14,672.4	\$ 13,696.1	\$ 10,801.2	\$ 8,479.2	\$ 6,965.4	\$ 5,878.9	\$ 5,945.9	\$ 4,962.1

Total backlog includes firm backlog plus (a) government orders not yet funded to us, (b) government orders being negotiated as continuations of authorized programs and (c) commercial orders subject to contingencies. Backlog is that of the aerospace segments only but includes all but a minor portion of the work to be performed under long-term contracts. Customer options and products produced for lease are excluded from backlog.

SUPPLEMENTAL INFORMATION

Quarterly Results of Operations:

The table below presents unaudited quarterly financial information for the years ended 31 December 1982 and 1983.

Quarter	Sales	Gross Margin	Net Earnings	Earnings Per Share
YEAR ENDED 31 DECEMBER 1982:				
1st	\$1,708.8	\$298.7	\$48.5	\$1.23
2nd	1,869.7	304.1	49.8	1.27
3rd	1,825.1	297.7	55.5	1.40
4th	1,927.7	346.7	60.9	1.54
YEAR ENDED 31 DECEMBER 1983:				
1st	\$2,074.9	\$332.9	\$59.9	\$1.51
2nd	1,934.1	313.5	61.5	1.55
3rd	2,038.8	351.3	70.9	1.78
4th	2,063.2	359.8	82.6	2.07

Quarterly Common Stock Prices and Dividends:

The range of market prices for a share of MDC Common Stock is shown below, by quarters for 1983 and 1982. Prices are as reported in the consolidated transaction reporting system.

Quarter	1983		1982	
	High	Low	High	Low
1st	\$55 7/8	\$39 3/4	\$35	\$28 5/8
2nd	62 3/4	51 7/8	39 3/8	33 5/8
3rd	59 7/8	46 1/4	44 1/4	33 1/4
4th	60 3/4	49 1/8	44 1/2	35 1/8

Cash dividends of \$.355 a share were declared for each quarter in 1983 and \$.31 a share each quarter in 1982.

Transfer Agents:

Shareholder Records Department, McDonnell Douglas Corporation; Centerre Trust Company of St. Louis; The Chase Manhattan Bank, New York

Registrars:

Centerre Trust Company of St. Louis; Chemical Bank, New York

Stock Exchanges:

McDonnell Douglas Corporation Common Stock is listed on the New York, Pacific, Brussels and Amsterdam Stock Exchanges.

Annual Report on Form 10-K:

Upon written request of any shareholder to Bryson R. Younger, Manager-Shareholder Records, McDonnell Douglas Corporation, P.O. Box 516, St. Louis, Missouri, 63166, MDC will furnish without charge a copy of its most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

BOARD
OF DIRECTORS

***SANFORD N. MCDONNELL**,
Chairman and Chief Executive Officer

***JOHN F. MCDONNELL**,
President

GEORGE H. CAPPS,
President, Capitol Coal & Coke Co.,
St. Louis

MICHAEL N. CHETKOVICH,
Director of External Affairs and
Lecturer, School of Business
Administration, University of California
at Berkeley; Retired Managing Partner
of Deloitte, Haskins & Sells

WILLIAM H. DANFORTH, M.D.,
Chancellor, Washington University,
St. Louis

DONALD W. DOUGLAS, JR.,
Business Consultant, Santa Monica

ELLIOTT M. ESTES,
Retired President and Chief Operating
Officer and Director of General Motors
Corporation

***GEORGE S. GRAFF**,
Retired President MCAIR

ROBERT L. JOHNSON,
Corporate Vice President - Group
Executive

***EDWIN S. JONES**,
Retired Chairman of the Board, Centerre
Bancorporation, St. Louis, and Retired
Chairman of the Board, Centerre Bank
NA, St. Louis

CHARLES F. KNIGHT,
Chairman and Chief Executive Officer,
Emerson Electric Co., St. Louis

ROBERT C. LITTLE,
Corporate Vice President - Group
Executive

HON. DONALD S. MACDONALD,
Partner, McCarthy & McCarthy, Toronto;
former member of the Canadian House
of Commons and Cabinet

JERRY MCAFEE,
Retired Chairman and Chief Executive
Officer, Gulf Oil Corporation

JAMES S. MCDONNELL III,
Corporate Vice President - Marketing

***WILLIAM R. ORTHWEIN, JR.**,
Retired Chairman McAuto

WILLIAM A. MCDONNELL,
Advisory Director; Retired Chairman of
the Board, Centerre Bank NA, St. Louis

*Executive Committee

CORPORATE
OFFICE

SANFORD N. MCDONNELL, Chairman and Chief
Executive Officer

JOHN F. MCDONNELL, President

R. JOSEPH ALAGNA, Staff Vice President - Material

DONALD P. AMES, Staff Vice President -
McDonnell Douglas Research Labs

ANATOLE BROWDE, Staff Vice President -
McDonnell Douglas Microelectronics Center

JERRY G. BROWN, Corporate Vice President -
Treasurer

JAMES T. BURTON, Staff Vice President - Far East

JOHN W. CHASE, Corporate Assistant Treasurer

CHARLES CONRAD, JR., Corporate Vice President

JOHN E. CROSTHWAIT, Corporate Vice President -
Eastern Region

WALTER E. DIGGS, JR., Corporate Secretary

ROWLAND G. FREEMAN III, Staff Vice President -
Strategic Planning & Energy Systems Ventures

JAMES M. GARDNER, JR., Staff Vice President -
Contracts & Pricing

CHARLES A. GASKILL, Staff Vice President -
Properties & Facilities

THOMAS M. GUNN, Staff Vice President -
Washington, D.C.

ROBERT L. HARMON, Corporate Vice President -
Civic Affairs

ARTHUR W. HYLAND, Staff Vice President -
Accounting

ROBERT L. JOHNSON, Corporate Vice President -
Group Executive

WARREN E. KRAEMER, Corporate Vice President -
Europe

F. MARK KUHLMANN, Corporate Assistant
Secretary

ROBERT C. LITTLE, Corporate Vice President -
Group Executive

JAMES H. MACDONALD, Corporate Vice President -
Personnel

MARVIN D. MARKS, Corporate Vice President -
Engineering & Research

JAMES S. MCDONNELL III, Corporate Vice
President - Marketing

GERALD J. MEYER, Corporate Vice President -
External Relations

LEO I. MIROWITZ, Staff Vice President -
Corporate Diversification

ERNIE H. RIDENHOUR, Staff Vice President -
Information Resource Management

JOHN T. SANT, Corporate Vice President -
General Counsel

WILLIAM E. SCHOWENGERDT, Staff Vice President -
Auditing

STANLEY J. SHEINBEIN, Corporate Assistant
Treasurer

HARRY I. SIEFERMAN, Corporate Tax Officer

ALBERT H. SMITH, Corporate Vice President -
Contracts & Controller

HOWARD C. TODT, Staff Vice President -
Quality Assurance

JOHN W. WALBRAN, Staff Vice President -
Associate General Counsel

MICHAEL WITUNSKI, Staff Vice President -
Charitable Affairs

HAROLD C. YOST, Corporate Vice President -
Productivity

COMPONENT
OFFICERS

†**MCDONNELL AIRCRAFT COMPANY
(MCAIR)**

***DONALD MALVERN**, President

***HAROLD D. ALTIS**, Executive Vice President

***ALVIN L. BOYD**, Senior Vice President

MADISON L. RAMEY, Senior Vice President

AKSEL R. ANDERSEN, Vice President -

Avionics Engineering

ROBERT C. BARTZ, Vice President - Material

WILLIAM J. BLATZ, Vice President - Engineering

JOHN J. BURNS, Vice President -

Advanced Engineering

IRVING L. BURROWS, JR., Vice President -

Plans & Operations Development

DENVER D. CLARK, Vice President - Marketing

JOHN W. GOUY, Vice President -

Contracts & Pricing

EDWIN A. HARPER, Vice President -

Program Manager - AV-8

DONALD J. HOMAN, Vice President - Controller

PAUL T. HOMSHER, Vice President -

General Manager - MDS

EDWARD B. KUHLMANN, Vice President -

Quality Assurance

ALEXANDER MARSHALL, Vice President -

International Marketing

HERBERT PERLMUTTER, Vice President -

Manufacturing

WILLIAM S. ROSS, Vice President -

General Manager - F-15

JOHN N. SCHULER, Vice President -

Fiscal Management

LAWRENCE A. SMITH, Vice President -

Aircraft Engineering

JOSEPH C. WALDNER, Vice President -

General Manager - F/A-18

DARRELL F. WATERS, Vice President -

Personnel - East

†**MCDONNELL DOUGLAS
AUTOMATION COMPANY (MCAUTO)**

***ROBERT A. FISCHER**, President

CHARLES M. BARLOW, Senior Vice President -
Health Services Division

THEODORE M. BELLAN, Senior Vice President -
Operations

JOHN J. CLANCY, Senior Vice President -

Industry & Product Management

JAMES R. DONOVAN, Senior Vice President -

Corporate Marketing

STANLEY T. BJURSTROM, Chief Counsel

RICHARD A. CALVERT, Vice President -

Architectural, Construction & Engineering

WILLIAM T. CORUM III, Vice President - Data

Services & Product Development - HSD

DURWOOD J. GARRITY, Vice President -

Fiscal Management

EUGENE T. HORN, Vice President -

Government Services

GEORGE F. MEISTER, JR., Vice President -

Manufacturing Industry Products Division

RAY A. MUNDLOCH, Vice President - Controller

WARREN B. RIGDON, Vice President -

MDC Services

GUY T. ROSE, Vice President - Industry &

Product Sales

FRANCIS V. STEFANIK, JR., Vice President -

Marketing & Client Services - HSD

WILLIAM R. VICKROY, Vice President - Product

Management & International Sales

†**DOUGLAS AIRCRAFT COMPANY (DAC)**

***JAMES E. WORSHAM**, President

WILLIAM T. GROSS, Executive Vice President

EDWARD CURTIS, Senior Vice President -

Fiscal Management

JERALD D. BURNS, Vice President - Commercial

Marketing - Pacific & Asia

JOHN H. CARROLL, JR., Chief Counsel

DAVID A. CONLON, Vice President - Assistant to

the President

JAMES H. DOUEZ, Vice President - Manufacturing

EUGENE F. DUBIL, Vice President -

Product Support

LOUIS F. HARRINGTON, Vice President -

Advanced Products

GLENN L. HICKERSON, Vice President -

Commercial Marketing - Europe, Africa &

Middle East

N. DOUGLAS INGEBRETSEN, Vice President -

Personnel - West

ROBERT C.P. JACKSON, Vice President - Plans

ROBERT H. KINDER, Vice President - Government

Program Development

RAY J. KLEINBERG, Vice President - Controller

RICHARD M. RANDALL, Vice President -

Contracts & Pricing

ROGER D. SCHAUFELE, Vice President -

Engineering

KIM STILL, Vice President - Commercial

Marketing - The Americas

JOSEPH D. VAN DYKE, JR., Vice President -

General Manager - C-17

HOWELL L. WALKER, Vice President - Fiscal

Management - MD-80-Special Financing

‡**MICRODATA CORPORATION**

***GARY E. LIEBL**, President and Chief
Executive Officer

IRVIN J. ELLA, Senior Vice President - Research
& Development

BERNARD HATHAWAY, Senior Vice President -

Manufacturing

PAUL W. WIEDENMANN, Senior Vice President -

Finance & Administration

JEREMY J. CAUSLEY, Vice President - European

Marketing, Sales & Service

JOHN C. EASTWICK, Vice President -

Human Resources

VERN H. HART, Vice President - North American

Field Service

GREGORY S. LAWSON, Vice President -

U.S. Manufacturing

BRONSON H. PURDY, Vice President -

Corporate Marketing

FRANK J. REINHART, Vice President -

U.S. Engineering

HENRY G. KOHLMANN, Chief Counsel

RONALD W. JOHNSON, Corporate Controller

†**MCDONNELL DOUGLAS
ELECTRONICS COMPANY (MDEC)**

***DAVID C. ARNOLD**, President

JOHN D. WOLF, Executive Vice President

D. GENE SIDDALL, Vice President - General

Manager - Electro Mechanical Division

ROBERT R. GRAHAM, Vice President

RONALD E. LUCARELLI, Vice President -

Fiscal Management

GEORGE MASURAT, Vice President - Operations

JOHN C. RUTH, Vice President - Marketing

HAROLD F. WOCHHOLZ, Vice President -

Program Management

†**MCDONNELL DOUGLAS
ASTRONAUTICS COMPANY (MDAC)**

***JOHN F. YARDLEY**, President

***ERWIN F. BRANAHL**, Vice President -

General Manager - St. Louis

***C. JAMES DORRENBACHER**, Vice President -

General Manager - Huntington Beach

RICHARD K. JACOBSON, Vice President -

General Manager - MDTSCO

THURMAN W. STEPHENS, Vice President -

General Manager - Titusville

CALVIN J. BLATTNER, Vice President -Tomahawk

Missile Programs - St. Louis

THOMAS D. BURSON, Vice President - Industrial

Control Products - Monrovia

THEODORE D. DUNN, Chief Counsel

KENNETH A. FRANCIS, Vice President -

Advanced Product Development -

Huntington Beach

SHERMAN L. HISLOP, Vice President - Program

Manager - Advanced Air-to-Surface Missile

Program - St. Louis

ROBERT H. HOOD, Vice President - Strategic

Program Development

GERALD A. JOHNSTON, Vice President -

Engineering - Huntington Beach

JOHN E. KULPA, JR., Vice President - C³I

Systems - Huntington Beach

DONALD L. KUMMER, Vice President - C³I

Programs - St. Louis

R. WAYNE LOWE, Vice President - Program

Manager - Harpoon - St. Louis

HAROLD L. MOTCHAN, Vice President -

Engineering - St. Louis

VINCENT J. MURRAY, Vice President -

Operations - St. Louis

WAYNE R. NATHANSON, Vice President -

Tomahawk Weapon Systems Engineering &

Integration - St. Louis

ADRIN P. O'NEAL, Vice President - Small

Intercontinental Ballistic Missile Programs -

Huntington Beach

CHARLES A. ORDAHL, Vice President - Space

Programs - Huntington Beach

CLARENCE F. PICARD, Vice President - Fiscal

Management - St. Louis

FRED J. SANDERS, Vice President - General

Manager - Tomahawk Weapon Systems -

St. Louis

JOHN L. SIGRIST, Vice President - Fiscal

Management - Huntington Beach

BILLY E. STITT, Vice President - Operations -

Huntington Beach

RALPH M. TANDOWSKY, Vice President -

Personnel

NED T. WEILER, Vice President - Missile

Programs - Huntington Beach

‡**VITEK SYSTEMS, INC.**

LEO I. MIROWITZ, President

RONALD S. EVANS, Vice President - Marketing &

Product Development

PAUL A. HORN, Vice President - Operations &

Fiscal Management

‡**MDC REALTY COMPANY**

WALTER E. DIGGS, JR., President

ROBERT R. YOUNG, Executive Vice President -

Operations

JERRY F. BORDELON, Vice President -Secretary

& Treasurer

MERLE G. PAUTSCH, Vice President -

Development

‡**HUGHES HELICOPTERS, INC. (HHI)**

JACK G. REAL, President and Chief

Executive Officer

ALLEN C. HAGGERTY, Executive Vice President -

Operations

WILLIAM H. MURPHY, Executive Vice President -

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d) of
The Securities Exchange Act of 1934

For the fiscal year ended 31 December 1983 Commission file number 1-3685

McDonnell Douglas Corporation

(Exact name of registrant as specified in its charter)

Maryland

(State of Incorporation)

43-0400674

(I.R.S. Employer Identification No.)

Post Office Box 516, St. Louis, MO.

(Address of principal executive
offices)

63166

(Zip Code)

Registrant's telephone number, including area code 314-232-0232

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<u>Common Stock, par value \$1 a share</u>	<u>New York and Pacific Stock Exchanges</u>
<u>4-3/4% Convertible Subordinated Debentures, due 1 July 1991</u>	<u>New York Stock Exchange</u>

Aggregate market value of common stock held
by non-affiliates of MDC at 31 January 1984: \$2,317.9 million

Common shares outstanding at 31 January 1984: 39,622,545 shares

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 12 months, and (2) has been subject to such filing
requirements for the past 90 days. Yes X No ____.

Documents Incorporated by Reference:

Portions of the 31 December 1983 annual shareholders' report are incorpor-
ated by reference into Parts I and II.

Portions of the proxy statement for the annual meeting to be held on
23 April 1984 are incorporated by reference into Part III.

PART 1

ITEM 1. BUSINESS

GENERAL

McDonnell Douglas Corporation (MDC) has six principal divisional companies and three principal subsidiary corporations. The principal divisional companies are: Douglas Aircraft Company engaged primarily in design, development and production of commercial and military transport aircraft; McDonnell Aircraft Company engaged primarily in design, development and production of combat aircraft; McDonnell Douglas Astronautics Company engaged primarily in design, development and production of space systems and missiles; McDonnell Douglas Automation Company engaged primarily in data processing services; McDonnell Douglas Electronics Company engaged primarily in aerospace electronics work; and McDonnell Douglas - Tulsa engaged primarily in modification and overhaul of aircraft originally manufactured by MDC, and miscellaneous manufacturing support for other MDC divisions. The three principal subsidiary corporations are: McDonnell Douglas Finance Corporation engaged in financing commercial aircraft and other products produced by MDC and in financing a variety of commercial and industrial products produced by others; McDonnell Douglas Canada Ltd. engaged in the manufacture in Canada of commercial aircraft subassemblies for MDC; and Microdata Corporation which produces business computer systems and related equipment. There are three reportable industry segments: combat aircraft, transport aircraft, and space systems and missiles.

Hughes Helicopters, Inc. was purchased in January 1984. Hughes is engaged in design, development and production of commercial and military helicopters and ordnance. Financial and other data relative to Hughes are not included in this report.

On 2 March 1984, the Company offered to purchase for cash all outstanding shares of common stock of Tymshare, Inc. for \$25 per share. The number of shares ultimately purchased will depend on the amount tendered. The estimated cost of acquiring all the shares is \$328 million. MDC expects to provide required funds by borrowing under its regular bank lines of credit. Such borrowings will be in addition to the amounts referred to in Management's Discussion and Analysis of Financial Condition and Results of Operations on page 16 of the Company's 1983 annual report which is incorporated herein under Item 7 of Part II. Tymshare provides computer information services and telecommunications services.

Financial information about industry segments included on page 28 of MDC's annual report for the year ended 31 December 1983, is incorporated herein by this reference.

COMBAT AIRCRAFT

MDC, through its McDonnell Aircraft Company (MCAIR) division, has under contract for production or development the F-15 Eagle, the F/A-18 Hornet, and the AV-8B Harrier II.

The F-15 Eagle supersonic, tactical fighter is currently produced for the U.S. Air Force, Israel and Japan, and also is being manufactured in Japan under a license agreement. MDC delivered 58 F-15's in 1983 and had delivered 834 F-15's by 31 December 1983. The U. S. Defense Department FY 1984 budget includes funds for production of 36 Eagles. In December 1983 MDC completed proposals to the Air Force for a new dual role fighter version of the F-15, and in February 1984 it was announced that the U.S. Air Force plans, subject to Congressional appropriation and administrative funding, to buy 392 of the modified Eagles designated the F-15E. This version retains the original air superiority fighter role and will add the capability to deliver heavy weapon loads accurately at night or under poor visibility conditions.

The F/A-18 Hornet is currently produced as a multi-mission strike fighter for the U.S. Navy and Marine Corps. MDC is prime contractor for the F/A-18 and Northrop Corporation is the major contractor to MDC. Production go ahead for U. S. Navy and Marine Corps fighter version of the Hornet was approved in June 1981, and production of attack versions was approved in December 1982.

MDC had delivered 146 F/A-18s (including 11 development aircraft) by 31 December 1983. The U.S. Defense Department FY 1984 budget includes funds for production of 84 Hornets. Canada has contracted to purchase 138 CF-18's over eight years under fixed price type contracts, and deliveries began in October 1982. Final assembly of these aircraft will be in the U.S. In 1981 Australia selected the F/A-18 as its next generation tactical fighter and attack aircraft. It will purchase 75 F-18A's with deliveries beginning in 1984. Final assembly of 73 of these aircraft will be in Australia. In 1982, Spain announced its decision to purchase 72 EF-18 aircraft with deliveries to begin in 1986. Spain also has an option to purchase 12 additional EF-18's. The F/A-18 is also under consideration by Greece, Israel, Germany, and New Zealand.

The MDC AV-8B Harrier II is a V/STOL (vertical/short takeoff and landing) attack aircraft with higher performance capability than the AV-8A Harrier currently in service with the U.S. Marine Corps. Great Britain and the U.S. Government have agreed to the joint development and production of the AV-8B V/STOL aircraft. MDC is the prime contractor, with British Aerospace (BAe) as principal subcontractor, for production of a planned 328 Harrier II's for the Marine Corps. BAe is prime contractor and MDC principal subcontractor for 62 Harrier II's to be assembled in Britain for the Royal Air Force. In 1982 MDC received funds for manufacturing the first 12 production AV-8B's. The U.S. Department of Defense FY 1984 budget includes funds for production of 27 AV-8B's. In April 1983 Spain announced its intention to acquire 12 AV 8B's from MDC.

In 1981 MDC and British Aerospace, working cooperatively with MDC as prime contractor, were selected as the winner in a competition for the T-45TS program which includes a jet trainer aircraft and pilot training system for the U.S. Navy. The Navy is studying the feasibility of having the T-45 training system in service in 1991. It is anticipated that a Request for Quotation for the full scale development contract will be received by MDC from the Navy in the first quarter of 1984.

Marketing, Major Customer and Competition

See discussions of these subjects on page 7.

HUGHES HELICOPTERS, INC.

In January 1984 MDC purchased Hughes Helicopters, Inc. which manufactures military and commercial helicopters and vehicle-mounted guns. The largest program at Hughes is the new AH-64 Apache advanced attack helicopter being produced for the U.S. Army. The two-place, turbine powered AH-64 is equipped with infrared, laser and other technology systems to seek out and destroy enemy armored vehicles at night and in adverse weather. The first operational versions of the AH-64 Apache advanced attack helicopter, in development since 1973, will be delivered to the Army in 1984. Approximately \$3 billion have been appropriated for production of 171 Apaches, and DoD has approved plans to acquire a total of 515 Apaches through 1988. Sales to foreign allied countries are also a possibility.

Hughes is expected to be a major competitor in the LHX (light helicopter experimental) program to design a new helicopter to replace much of the Army's light helicopter inventory during the 1990's.

TRANSPORT AIRCRAFT

MDC, through its Douglas Aircraft Company (DAC) division, currently produces the MD-80 (formerly designated DC-9-80) for sale throughout the world, and KC-10 transport aircraft for sale to the U.S. Government.

A long-awaited improvement in the financial condition of the world's airlines, and a resulting increase in demand for new jetliners failed to materialize in 1983. As a result of this, continuing excess production capacity in the airlines industry, and strong competition of rival manufacturers, the Company determined in November to stop all work on the proposed MD-90 and MD-100 programs. MDC is continuing production of the MD-80 and of the KC-10.

The MD-80 is a twin-jet, short-to-medium range transport designed to operate efficiently on relatively short routes. Fifty new MD-80 aircraft were delivered in 1983, an increase of six over 1982. Firm orders for 43 MD-80's were received in 1983, compared to 84 in 1982. As of 31 December 1983, a total of 1,127 DC-9s (including MD-80s) had been delivered to commercial and government customers, there were 61 unfilled firm orders, 17 aircraft being built for lease, and conditional orders and options for an additional 38 aircraft, for a total of 1,243 aircraft. See "BACKLOG". On 29 February 1984, McDonnell Douglas executed a purchase agreement with American Airlines for 67 MD-80's and options for an additional 100 aircraft. The agreement provides for deliveries of the 67 aircraft to begin in 1985 and continue through 1987 at level prices, adjusted for inflation. If all options are exercised, the last of the 167 MD-80's will be delivered in 1991.

The KC-10 Extender is a DC-10 Series 30 convertible freighter modified to provide the capabilities required for aerial refueling of military aircraft and the transportation of cargo and personnel. Development commenced

in 1978 and the first flight of the KC-10 took place in the third quarter of 1980. The U.S. Government has ordered a total of 60 KC-10's, 44 of which were included in a multi-year contract signed in December 1982. The yearly funding for the multi-year program is subject to review in the annual Congressional review of the defense budget. A total of 32 KC-10's has been funded to date. Twenty KC-10's had been delivered through December 1983, eight in 1983.

The DC-10, a wide-bodied tri-jet aircraft, is not currently in production, although there are two new DC-10's currently available for sale. MDC delivered four DC-10s in 1983 compared to five in 1982. An order was received for one DC-10 in 1983, compared to none in 1982. As of 31 December 1983, 367 DC-10 aircraft had been delivered and there was one conditional order for a total of 368 commercial DC-10s. See "BACKLOG".

In August 1981 MDC was announced as winner of the USAF competition for the C-X military transport and its design was designated the C-17. Initial research and development funding of \$31.6 million was authorized in 1982. Additional funding of \$81 million was authorized by Congress in 1983. Full scale engineering development is being requested as part of the FY 1985 Department of Defense budget.

Competition

The transport aircraft business is highly competitive. All of MDC's commercial jet aircraft sales are subject to intensive competition from aircraft manufactured by other companies both domestic and foreign, including companies with substantial resources and companies which are nationally owned or subsidized. Competition is on the basis of product suitability to the needs of the customer (a function of existing fleet mix, rate and route structure and other factors), product performance (including factors such as noise, fuel efficiency, maintenance costs), price, financing assistance and service. Transport aircraft sold to the U.S. Government are subject to additional competitive factors. See the discussion under Competition on page 8.

During the period 1974-1983, based on the dollar volume of firm program orders booked, MDC ranked second among all U.S. and Western European manufacturers of commercial jet transports. MDC's annual percent of penetration of total net bookings received by such manufacturers for commercial transports during that period varied from 6.9% to 30.7% and averaged 16.9%. MDC ranked second among U.S. and Western European manufacturers during 1983, receiving an estimated \$1.1 billion (18.3%) of the total net bookings of approximately \$6.1 billion for commercial jet transports received by such manufacturers.

SPACE SYSTEMS AND MISSILES

MDC, through its McDonnell Douglas Astronautics (MDAC) division, is engaged in a wide variety of programs in the space systems and missiles fields.

The Delta space booster is used to launch commercial and government satellites into orbit. In 1983 MDC launched eight Deltas continuing a string of 39 successful launches and a cumulative total of 173 launches. Four Delta

launches are scheduled for 1984. Because the Space Shuttle is now a fully operational launch vehicle, NASA does not expect to place additional Delta orders.

MDC has developed a solid fueled, spinning upper stage unit called Payload Assist Module (PAM) which can be used as the third stage of the Delta or with the Space Shuttle. By the end of 1983, MDC had firm orders for 34 PAM-D's of which 16 had been successfully launched, including the first five commercial launches from the Space Shuttle. Two commercial launches from the Shuttle in February 1984 were unsuccessful. An industry team has been established to determine the cause of these failures. A new, more powerful PAM, designated PAM-DII, is under development. In 1983 orders for four PAM-DII's were received from commercial customers, and the U.S. Air Force began procurement of PAM-DII's for the NAVSTAR Global Positioning Satellite (GPS) Program, to be launched from the Shuttle starting in 1985. The Air Force also has launched a navigational satellite into orbit in 1983 using a new double PAM configuration called SGS-II with an Atlas Rocket. Three more Air Force launches are scheduled in 1984..

MDC is under subcontract to design and produce the Aft Propulsion Subsystem and structural components of the solid rocket boosters for the NASA Space Shuttle System, and, under a direct contract to NASA, provides engineering and operations support services. MDC also provides payload operations support to the USAF for defense oriented Shuttle missions.

MDC is prime contractor to the U.S. Army for design and development of an advanced ballistic missile defense radar sensor system. MDC is also participating in studies of new national defense initiatives and is competing for contracts in this area.

MDC is prime contractor for the Navy's Harpoon anti-ship missile, a subsonic, all-weather missile with over-the-horizon range and sea-skimming flight performance which can be launched by surface ships, submarines, aircraft and shore batteries and is compatible with current launch and fire control systems. A total of 3,440 Harpoons had been ordered for the U.S. Navy and 13 foreign nations through the U.S. Government, and 2,870 had been delivered by 31 December 1983.

MDC is completing full-scale development work on guidance sets for ship attack and land strike versions of the Tomahawk cruise missile. In 1981 MDC received initial production orders for Tomahawk guidance sets for these versions as well as ground-launched cruise missiles. Initial production orders were also received for launch-control equipment that would be part of European basing of ground-launched cruise missiles. In 1982 MDC was selected to become a second-source manufacturer of Tomahawk cruise missiles. In 1983, MDC was selected as the engineering and integration agent for the Tomahawk weapon system.

In July 1981, MDC received a contract for development and testing of a secure, high-capacity laser communications system for space satellites. Additional funding has been received and production work is anticipated in 1984.

MDC completed and delivered four mast-mounted sights for the Army Helicopter Improvement Program in 1983. Flight tests in 1983 were

successful. The first production option for 21 systems was exercised in August 1983 along with long lead procurement authorization. Initial tooling for production long lead items will begin in March 1984 and production go ahead is expected in late 1984.

Design and development of the Mk48 Advanced Capability Torpedo Fleet Exercise subsystem progressed through the Critical Design Review stage in 1983. Manufacturing and test of hardware has been initiated for the full scale engineering development phase. Go ahead for limited rate production is anticipated late in 1984.

MDC is engaged in research, study and proposal activities on a number of programs of near term and longer range significance, including derivatives of existing missile systems, advanced missile systems, space laser communication and continued expansion in Space Shuttle related projects including power modules and manufacturing in space concepts.

Marketing and Major Customer

The market for products of the combat aircraft (including helicopters), transport aircraft (military portion), and space systems and missiles segments is primarily a government market. The major customers of these segments of MDC's business are the U.S. Government (primarily the Air Force, Army, Navy, Marines and NASA) and its allied and friendly governments. In addition to the normal risks found in any business, companies engaged in supplying military and space equipment to the Government are subject to unusual risks, including dependence on Congressional appropriations and annual administrative allotment of funds, changes in Government policies and consequent potential for termination of contracts for convenience of the Government, time required for design and development, complexity of designs and the rapidity with which they become obsolete, the constant necessity for design improvement, the intense competition for available Government business, the difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work and other factors characteristic of the industry. The loss of a major portion of the U.S. Government business could have a material, adverse effect on MDC.

Competition

In the combat aircraft, transport aircraft (military portion), and space systems and missiles segments of its business, MDC encounters intensive competition from numerous firms when attempting to obtain an award as prime contractor or as a principal subcontractor on the relatively few large defense and space programs. Competition exists in the area of a firm's ability to perform the given task at a lesser cost to the Government, and in its ability to develop and manufacture an item that will accomplish the specified requirement in accordance with a predetermined delivery schedule. Substantial expenditures for design and development may be required without any assurance that such expenditures will result in a contract or that such contract, if awarded, will be profitable. Moreover, the costs of maintaining adequate research and development capabilities are substantial. The extent to which MDC participates in future defense and space programs will depend in large part on its research and development, the productivity of these activities, and MDC's effectiveness as evaluated by the Government in performing current

projects. Based on available data, MDC ranked first in the nation in the dollar value of United States prime defense contract awards in 1976, 1977 and 1981 and second in 1978, 1979, 1980, 1982, and 1983.

OTHER ACTIVITIES

McDonnell Douglas Automation Company (McAuto)

This division provides sophisticated computer software and a variety of data processing services to customers in industries including health care, manufacturing, telecommunications, engineering and construction, and insurance. It also supplies data processing services to MDC's subsidiaries and other divisions. At 31 December 1983, McAuto had approximately 7,200 personnel located in 80 offices in 63 cities in 28 states and seven foreign countries. In January 1984 MDC acquired Computer Sharing Services, Inc. which will enhance McAuto's revenue growth in the telecommunications industry in 1984.

Microdata Corporation

Microdata Corporation, a wholly-owned subsidiary, produces the data processing systems REALITY, SOVEREIGN and SEQUEL, and related equipment at facilities in the U.S. and Great Britain. At 31 December 1983, Microdata employed approximately 3,000 personnel and had 122 branch sales and service locations primarily in the U.S and Great Britain.

McDonnell Douglas Electronics Company (MDEC)

This division is engaged in work in the fields of visual simulation, energy and military training equipment, avionics, ground support equipment and electro-mechanical devices. Although MDEC supplies significant amounts of goods and services to MDC divisions or subsidiaries, in 1983 51% of its sales were to commercial customers and to the U.S. Government.

McDonnell Douglas Finance Corporation (MDFC)

This wholly-owned subsidiary is engaged in financing and leasing a variety of equipment, including aircraft, highway vehicles, railroad cars, shipping containers, computers, and medical equipment to approximately 540 customers engaged in over 55 industries. In 1983 65% of MDFC's total volume of new business of \$264 million was outside the commercial aircraft field.

Other

Through its subsidiaries and divisions, MDC is engaged in a variety of additional businesses providing diverse products and services.

Competition

MDC faces strong competition in all of its businesses, quite often from major companies operating in the same areas and dedicating equal or greater capital and manpower to the development and marketing of similar, competitive products and services.

SUBCONTRACTING, PROCUREMENT AND RAW MATERIALS

The most important raw materials required for MDC products, from the standpoint of aggregate cost, are aluminum (sheet, plate, forgings and extrusions), titanium (sheet, plate, forgings and extrusions) and composites (including graphite and boron). All of these materials are purchased from outside sources. Composites are currently purchased from five suppliers, and although other potential composite suppliers do exist, it would take a year or more before they could become qualified alternate sources of supply.

MDC purchases many components, such as engines and accessories, electrical power systems, radars, landing gears, fuel systems, refrigeration systems, navigational equipment, and flight and engine instruments for use in aircraft; and propulsion systems, guidance systems, telemetry and gyroscopic devices in support of its space systems and missile programs. In addition, fabricated subassemblies such as engine pods and pylons, fuselage sections, wings and empennage surfaces, doors and flaps, are sometimes subcontracted to outside vendors. The Government and commercial customers also furnish many components for incorporation into aircraft and other products they purchase from MDC. For the last two years, purchased materials, parts and supplies (including subcontracted items) amounted to approximately the following percentage of sales: 1983 - 48.4% and 1982 - 49.2%.

MDC is dependent upon the ability of its large number of suppliers and subcontractors to meet performance specifications, quality standards, and delivery schedules at anticipated costs, and their failure to do so could adversely affect production schedules and contract profitability, while jeopardizing the ability of MDC to fulfill commitments to its customers. MDC has encountered some difficulty from time to time in assuring long-lead time supplies of essential parts, subassemblies, and materials. The Company's success in forestalling shortages of critical commodities over the long term is difficult to predict because many factors affecting such shortages are outside its control.

EMPLOYEES

At 31 December 1983 the total employment of MDC, including subsidiaries, was 74,466. MDC employees who are members of the United Auto Workers struck the Company plants in Melbourne, Arkansas, Tulsa, Oklahoma and Long Beach, California on 17 October 1983. The strike ended on 18 January 1984 at Melbourne, on 20 January at Tulsa, and on 10 February at Long Beach. The strike will cause delays in deliveries of MD-80's and will eventually result in increased costs associated with resumption of full production and acceleration of manufacturing to recover time lost in the delivery schedule. This will impact 1984, and possibly 1985 earnings, adversely. Notwithstanding the strike, the Company believes its employee relations are generally satisfactory.

PATENTS AND LICENSES

MDC holds many patents and has licenses under patents held by others. The Company does not believe that the expiration of any patent or group of patents, nor the termination of any patent license agreements, other than by reason of its default, would materially affect its business. MDC does not believe that its trademarks, franchises, or concessions are materially important to the conduct of its business.

ENVIRONMENTAL REGULATIONS

Capital expenditures to comply with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the environment, have not been material in relation to the financial position of MDC, and are not expected to be so in the future; nor has compliance had a material effect on earnings or the competitive position of MDC.

RESEARCH AND DEVELOPMENT

Substantial portions of the work performed under Government contracts are research and development work, which are reflected as sales and costs in MDC's financial statements. Company-initiated independent research and development and bid and proposal work amounted to \$301 million in 1983 and \$254 million in 1982. All such amounts are expensed currently.

FOREIGN OPERATIONS AND EXPORT SALES

Information relative to foreign operations and export sales contained on page 26 of the annual report for the year ended 31 December 1983 is incorporated herein by this reference.

BACKLOG

The backlog of orders at 31 December of the last two years has been as follows:

	1983		1982	
	<u>Backlog</u>	<u>%</u>	<u>Backlog</u>	<u>%</u>
	(Dollars in millions)			
Firm backlog:				
Combat aircraft	\$ 6,874	64.0	\$ 6,934	68.2
Transport aircraft	2,679	25.0	2,266	22.3
Space systems and missiles	<u>1,181</u>	<u>11.0</u>	<u>965</u>	<u>9.5</u>
Total Firm Backlog	<u>\$10,734</u>	<u>100.0</u>	<u>\$10,165</u>	<u>100.0</u>

Contingent backlog:				
Combat aircraft	\$4,646	70.4	\$3,855	54.9
Transport aircraft	1,613	24.4	2,316	33.1
Space system and missiles	<u>345</u>	<u>5.2</u>	<u>845</u>	<u>12.0</u>
Total Contingent Backlog	<u>\$6,604</u>	<u>100.0</u>	<u>\$7,016</u>	<u>100.0</u>

Backlog is that of the aerospace segments only but includes all but a minor portion of the work to be performed under long-term contracts. Customer options and products produced for lease are excluded from backlog.

Contingent includes (a) U.S. and other government orders not yet funded to us, (b) U.S. and other government orders being negotiated as continuations of authorized programs and (c) commercial orders subject to contingencies.

The backlog amounts include units scheduled for delivery over extended future periods. Since substantially all work for the U.S. and other governments is accounted for on the percentage of completion method of accounting whereby sales are recorded as work is performed, such amounts included in backlog cannot be segregated on the basis of scheduled deliveries. However, with respect to commercial jetliners and related products included in the Transport Segment (which are accounted for on the delivery method), the firm backlog related to deliveries scheduled after one year was \$625 million at 31 December 1983 and \$811 million at 31 December 1982.

The Government may terminate its contracts for default or for its convenience whenever it believes that such termination would be in the best interest of the Government. Under contracts terminated for the convenience of the Government, a contractor is entitled to receive payments for its costs, and, in general, the proportionate share of its fee or earnings for the work done.

ITEM 2. PROPERTIES

The following table summarizes the approximate building area (in gross square feet) of the principal properties used by MDC at 31 December 1983.

<u>Location</u>	<u>Owned</u>	<u>Leased</u>
California		
Huntington Beach	2,105,656	236,132
Long Beach	6,905,331	174,185
Torrance	2,250,143	
Other	363,372	1,087,435
St. Louis County, Missouri	7,744,849	2,134,548
Tulsa, Oklahoma		2,920,102
Malton, Ontario, Canada	1,775,555	
Other	<u>1,314,281</u>	<u>1,851,994</u>
Total	<u>22,459,187</u>	<u>8,404,396</u>

The only material leases are those for plants leased from the U.S. Government. A lease for a facility of 757,083 gross square feet in St. Louis, Missouri extends to 30 June 1984 and is renewable at five year intervals to 30 June 1999. The Tulsa, Oklahoma plant is leased from the U.S. Government on a month to month basis.

MDC has long-term airport use arrangements enabling it to use, generally with others, the runways, taxiways and certain other airport facilities owned by municipal authorities and used by the Company in connection with its St. Louis County, Missouri, Long Beach, California, Yuma, Arizona, and Tulsa, Oklahoma facilities.

In the opinion of MDC's management, all of its facilities are well maintained and suitable for the purposes for which they are utilized. The facilities at Huntington Beach, California and a portion of the plant in St. Louis County, Missouri are utilized by the Space Systems and Missiles segment for research and manufacture of spacecraft, launch vehicles and missiles. The plant at Long Beach, California is utilized by the Transport Aircraft segment for the development, manufacture and assembly of such aircraft. The Torrance, California property supports both the Transport and Combat Aircraft segments. The facilities at St. Louis County, Missouri are utilized by all business segments but are chiefly devoted to the development, manufacture and assembly of combat aircraft. The Tulsa, Oklahoma plant's principal function is to perform assist work for the Transport and Combat Aircraft segments. The plant in Canada is almost exclusively engaged in producing transport aircraft components for shipment to the United States for assembly into complete aircraft.

ITEM 3. LEGAL PROCEEDINGS

Northrop Corporation initiated litigation on 26 October 1979 in the United States District Court in Los Angeles, California, concerning the rights and obligations of the parties with respect to the production and sale of F-18 aircraft under certain agreements and conduct of the parties related to such agreements and aircraft. MDC counterclaimed. On 2 December 1980, before trial, the Court dismissed Northrop's complaint and MDC's counterclaims on various grounds, and also granted summary judgment with respect to other of Northrop's claims and MDC's counterclaims. On 28 February 1983 the Ninth Circuit Court of Appeals reversed the District Court and remanded the matter to the District Court. Both parties have filed amended pleadings. Northrop now seeks damages in an amount not less than \$100.0 million on each of several counts, treble and punitive damages, an award of profits of MDC on the F-18 program, and declaratory, injunctive, and other equitable relief. MDC has denied Northrop's allegations and claims and has counterclaimed. MDC is requesting declaratory and injunctive relief, damages in amounts exceeding \$250.0 million on each of several counts, and treble and punitive damages. Northrop has denied these allegations and claims. MDC's outside counsel is of the opinion, based on discovery to date and its analysis of the facts and law,

that MDC has meritorious defenses to the Northrop claims against MDC and that MDC's claims against Northrop are meritorious. In its opinion the ultimate resolution of Northrop's claims and MDC's counterclaims will not have a material adverse effect on the financial position of the Company.

On November 24, 1982, Laker Airways Limited, as plaintiff, filed an action in the United States District Court for the District of Columbia against the following defendants: Pan American World Airways, Inc., Trans World Airways, Inc., Britain Airways Board, Lufthansa German Airlines, Swissair, Swiss Air Transport Company Limited, British Caledonian Airways Limited, McDonnell Douglas Corporation and McDonnell Douglas Finance Corporation. The Complaint alleges, among other things, that the defendants, in violation of U.S. anti-trust laws, conspired to cause and did cause the plaintiff to cease doing business. The Complaint in this action seeks aggregate damages (including punitive damages) in excess of \$1 billion from the defendants. MDC and MDPC have filed answers denying the allegations.

MDC is a defendant in a number of other legal proceedings in which substantial amounts are sought. Much of such litigation is covered by insurance. MDC anticipates that the amounts, if any, which may be required to be paid as a result of any of these proceedings will not be material in relation to the financial position of MDC.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of MDC at 31 December 1983 were as follows:

<u>Executive</u>	<u>Positions and Offices Held</u>	<u>Age</u>
David C. Arnold	Corporate Vice President; President of McDonnell Douglas Electronics Company, a division	64
Jerry G. Brown	Corporate Vice President - Treasurer	50
Walter E. Diggs, Jr.	Corporate Secretary & Counsel	47
Robert A. Fischer	Corporate Vice President; President of McDonnell Douglas Automation Company, a division	46
Robert L. Harmon	Corporate Vice President-Civic Affairs	57
Robert L. Johnson	Corporate Vice President - Group Executive	63
Gary E. Liebl	Corporate Vice President; President and Chief Executive Officer of Microdata Corporation, a subsidiary	42
Robert C. Little	Corporate Vice President - Group Executive	58

James H. MacDonald	Corporate Vice President-Personnel	47
Donald Malvern	Corporate Vice President; President of McDonnell Aircraft Company, a division	62
Marvin D. Marks	Corporate Vice President - Engineering & Research	63
James S. McDonnell III	Corporate Vice President - Marketing	47
John F. McDonnell	President	45
Sanford N. McDonnell	Chairman and Chief Executive Officer	61
James T. McMillan	Corporate Vice President; President of McDonnell Douglas Finance Corporation, a subsidiary	58
Gerald J. Meyer	Corporate Vice President-External Relations	43
John T. Sant	Corporate Vice President - General Counsel	51
Albert H. Smith, Jr.	Corporate Vice President-Contracts and Controller	62
James E. Worsham	Corporate Vice President; President of Douglas Aircraft Company, a division	59
John F. Yardley	Corporate Vice President; President of McDonnell Douglas Astronautics Company, a division	58
Harold C. Yost	Corporate Vice President-Productivity	59

The Executive Committee of MDC Board of Directors consists of G. S. Graff, E. S. Jones, J. F. McDonnell, S. N. McDonnell (Chairman) and W. R. Orthwein, Jr.

Sanford N. McDonnell is a cousin of James S. McDonnell III and John F. McDonnell, who are brothers.

All officers serve at the pleasure of the Board of Directors of the Company. All of the above executive officers except Robert A. Fischer, Gary E. Liebl and James E. Worsham have been employees of the Company for at least five years, and David C. Arnold, Jerry G. Brown, Walter E. Diggs, Jr., James S. McDonnell III, James T. McMillan, John T. Sant, and Albert H. Smith, Jr. have held the above positions for more than five years. Robert A. Fischer was elected Corporate Vice President in March 1983, and was appointed President of McDonnell Douglas Automation Company (McAuto) in November 1982. From 1981 to 1982 he was Senior Vice President of National CSS, Inc., a wholly owned subsidiary of Dun & Bradstreet, and from 1979 to 1982, President of its Remote Computer Services Division. From 1973 to 1979 he was Industry Director - Insurance of International Business Machines Corporation. Robert L. Harmon was elected Corporate Vice President-Civic Affairs in December 1982, and was elected Corporate Vice President in 1975, at which time he was Executive Vice President-Commercial of McAuto. Robert L. Johnson was elected Corporate Vice President - Group Executive in December 1980, appointed President of McDonnell Douglas Astronautics Company (MDAC) in 1975 at which time he was a Corporate Vice President. Gary E. Liebl was elected Corporate Vice President in July 1983, and was elected President of Microdata Corporation in 1981. From 1977 to 1981 he was President of Microdata International Corporation, a subsidiary of Microdata. Robert C. Little was elected Corporate Vice President - Group Executive in April 1982, Corporate Vice President - Operations and Marketing in September 1980, and Corporate Vice President - Engineering & Marketing in 1977. James H. MacDonald was elected Corporate Vice President-Personnel in 1980, and was Director-Personnel-East of McDonnell Aircraft Company (MCAIR) from 1978 to 1980. Donald Malvern was appointed President of McDonnell Aircraft Company (MCAIR) in April 1982, and elected a Corporate Vice President in 1974 at which time he was Executive Vice President of MCAIR. Marvin D. Marks was elected Corporate Vice President - Engineering & Research in 1982, and Vice President - Corporate Program Manager - C-X, in 1981. From 1978 to 1981 he was Vice President - Government Marketing of Douglas Aircraft Company (DAC). John F. McDonnell was elected President in October 1980 and Corporate Executive Vice President in 1977. Sanford N. McDonnell was elected Chairman and Chief Executive Officer in October 1980 and President and Chief Executive Officer in 1972. Gerald J. Meyer was elected Corporate Vice President-External Relations in 1981 and was Director-External Relations from 1976 to 1981. James E. Worsham was appointed President of Douglas Aircraft Company (DAC) in November 1982, and elected Corporate Vice President and appointed Executive Vice President of DAC, both effective March 1982. From 1981 to 1982 he was Vice President - Market Development of General Electric Company (GE) and from 1976 to 1981 he was Vice President - Commercial Engines of GE. John F. Yardley was elected Corporate Vice President and appointed President of MDAC in July 1981. From 1974 to July 1981 he held various positions with NASA, including Associate Administrator Space Transportation Systems. Harold C. Yost was elected Corporate Vice President-Productivity in October 1982. He was Vice President-Operations of MDAC from 1977 to 1982. Information in respect of Directors of MDC contained on pages 3 through 6 of MDC's proxy statement for 1983 is incorporated herein by this reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Identification of the principal exchanges in which MDC's common stock is being traded, high and low sales prices for the stock for each quarterly period, and the frequency and amount of dividends declared with respect to such stock, during the past two years, as stated on page 31 of the annual report for the year ended 31 December 1983 are incorporated herein by this reference. The number of holders of record of MDC's common stock at 31 January 1984 was 42,278.

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data for the five years ended 31 December 1983, consisting of the data captioned Summary of Operations, and Financial Position on 31 December, on page 30 of the annual report for the year ended 31 December 1983 are incorporated herein by this reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 16 and 17 of the annual report for the year ended 31 December 1983 is incorporated herein by this reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of McDonnell Douglas Corporation and Consolidated Subsidiaries, included in the annual report for the year ended 31 December 1983 at the pages indicated, are incorporated herein by this reference.

Consolidated Statement of Financial Position, 31 December 1983 and 1982, pages 18 and 19.

Consolidated Statement of Shareholders' Equity, years ended 31 December 1983, 1982 and 1981, page 20.

Consolidated Statement of Changes in Financial Position, years ended 31 December 1983, 1982 and 1981, page 21.

Consolidated Statement of Earnings, years ended 31 December 1983, 1982 and 1981, page 22.

Notes to Consolidated Financial Statements, 31 December 1983, pages 22 to 26.

The Quarterly Results of Operations on page 31 and the information on Inflation and Changing Prices on page 29 of the annual report for the year ended 31 December 1983 are incorporated herein by this reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None, not applicable.

PART III

ITEMS 10, 11, 12 and 13

The information called for by Part III, Item 10 "Directors and Executive Officers of the Registrant", Item 11 "Executive Compensation" (except for a list of Executive Officers which is provided in Part I of this Report), Item 12 "Security Ownership of Certain Beneficial Owners and Management", and Item 13 "Certain Relationships and Related Transactions" will be included in a definitive Proxy Statement pursuant to Regulation 14A which is incorporated herein by reference, and which will be filed with the Commission within 120 days after the close of the fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)1. LIST OF FINANCIAL STATEMENTS

The following consolidated financial statements of McDonnell Douglas Corporation and Consolidated Subsidiaries, included in the annual report of the registrant for the year ended 31 December 1983, are incorporated by reference in Item 8:

Consolidated Statement of Financial Position, 31 December 1983 and 1982.

Consolidated Statement of Shareholders' Equity, years ended 31 December 1983, 1982 and 1981.

Consolidated Statement of Changes in Financial Position,
years ended 31 December 1983, 1982 and 1981.

Consolidated Statement of Earnings, years ended 31 December
1983, 1982 and 1981.

Notes to Consolidated Financial Statements, 31 December 1983.

(a)2. LIST OF FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statement schedules of
McDonnell Douglas Corporation and Consolidated Subsidiaries
are included in Item 14(d):

Schedule VII Guarantees of Securities of Other Issuers

Schedule VIII Valuation and Qualifying Accounts

Schedule IX Short-Term Borrowings

Schedule X Supplementary Income Statement Information

All other schedules for which provision is made in the
applicable regulation of the Securities and Exchange
Commission are not required under the related instructions or
are inapplicable, and therefore have been omitted.

(a)3. EXHIBITS

3. Articles of Restatement of MDC's Charter dated 27 April 1979,
incorporated by reference from MDC's Form 10-Q for the first
quarter of 1979 with which they were filed as an exhibit;
Bylaws of McDonnell Douglas Corporation as amended and
restated effective 29 April 1983, incorporated by reference
from MDC's Form 8-K dated 1 June 1983, with which they were
filed as an exhibit.
4. Instruments defining the rights of security holders,
including indentures.
10. McDonnell Douglas Corporation Incentive Compensation Plan, as
amended 14 January 1982.
11. Computation of earnings per share.
13. Annual report to security holders, 31 December 1983.
22. Subsidiaries.
24. Consent of Independent Auditors re incorporation of Form 10-K
into Registration Statements on Form S-8.
25. Power of attorney authorizing John T. Sant and Walter E.
Diggs, Jr. to execute 1983 Report on Form 10-K on behalf of
certain Directors and Officers.

28a. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Salaried Plan.

28b. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly East Plan.

28c. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly West Plan.

28d. Form 11 K, Employee Savings Plan of Microdata Corporation.

28e. Form 11 K, Employee Savings Plan of McAuto Systems Group, Inc.

(b) Reports on Form 8-K filed in the fourth quarter of 1983:

None.

(c) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report. (See page 21)

(d) Financial Statement Schedules

The response to this portion of Item 14 is submitted as a separate section of this report. (See page 27)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MCDONNELL DOUGLAS CORPORATION
(Registrant)

Date: 7 March 1984 By /s/ A. W. Hyland
Arthur W. Hyland, Staff Vice President -
Accounting (Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dated indicated below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ S. N. McDonnell</u> Sanford N. McDonnell	Director, Chairman & Chief Executive Officer (Principal Executive Officer)	March 7, 1984
<u>/s/ J. F. McDonnell</u> John F. McDonnell	Director, President (acting Principal Financial Officer)	March 7, 1984
George H. Capps *	Director	March 7, 1984
Michael N. Chetkovich *	Director	March 7, 1984
William H. Danforth *	Director	March 7, 1984
Donald W. Douglas, Jr. *	Director	March 7, 1984
Elliott M. Estes*	Director	March 7, 1984
George S. Graff *	Director	March 7, 1984
Robert L. Johnson *	Director	March 7, 1984
Edwin S. Jones *	Director	March 7, 1984
Charles F. Knight*	Director	March 7, 1984
Robert C. Little *	Director	March 7, 1984
James S. McDonnell III *	Director	March 7, 1984

*By his signature below Walter E. Diggs, Jr. has signed this Form 10-K as Attorney-in-fact on behalf of the persons listed above whose names are followed by an asterisk, pursuant to a Power of Attorney, a copy of which is filed with this Form 10-K.

/s/ W. E. Diggs, Jr.
Walter E. Diggs, Jr., Attorney-in Fact

**MCDONNELL DOUGLAS CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

EXHIBITS

- 4. Instruments defining the rights of security holders, including indentures.
- 10. McDonnell Douglas Corporation Incentive Compensation Plan, as amended 14 January 1982.
- 11. Computation of earnings per share.
- 13. Annual report to security holders, 31 December 1983.
- 22. Subsidiaries.
- 24. Consent of Independent Auditors re incorporation of Form 10-K into Registration Statements on Form S-8.
- 25. Power of attorney authorizing John T. Sant and Walter E. Diggs, Jr. to execute 1983 Report on Form 10-K on behalf of certain Directors and Officers.
- 28a. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Salaried Plan.
- 28b. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly East Plan.
- 28c. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly West Plan.
- 28d. Form 11 K, Employee Savings Plan of Microdata Corporation.
- 28e. Form 11 K, Employee Savings Plan of McAuto Systems Group, Inc.

Exhibit 4

**MCDONNELL DOUGLAS CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

The registrant agrees to furnish, upon the request of the Commission, copies of constituent instruments defining the rights of the holders of the long-term debt described as follows:

McDonnell Douglas Corporation:

- 4 3/4% Convertible Subordinated Debentures, due 1991
- 5 1/4% Space Center Secured Notes, due 1986
- 10% Promissory note, due 1984
- 31 Producer Loans with interest rates from
11.2% to 17.0%, due at various times through 1988
- Five Promissory notes with various interest rates with
final maturity varying from 1985 to 1989.
- Promissory notes eliminated in consolidation

McDonnell Douglas Canada Ltd:

- Promissory note, partially interest free, due 1988
- Promissory note, partially interest free, due 1986

VITEK Systems, Inc:

- 9% Note and Deed of Trust, due 1994

Microdata Corporation:

- 9% Note and Deed of Trust, due 1998

Exhibit 11

MCDONNELL DOUGLAS CORPORATION
AND CONSOLIDATED SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE

Years Ended 31 December	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(Dollars in millions)		
PRIMARY			
Weighted average shares outstanding	39,070,113	38,411,768	38,795,530
Issuable upon conversion of convertible debentures	552,291	992,648	1,112,414
Net increase upon exercise of stock options (1)	<u>227,225</u>	<u>111,207</u>	<u>75,697</u>
Total shares	<u>39,849,629</u>	<u>39,515,623</u>	<u>39,983,641</u>
Net earnings	\$274.9	\$214.7	\$176.6
Adjustment for interest and debt expense (less applicable income taxes) on convertible debentures	<u>.3</u>	<u>.7</u>	<u>.9</u>
	<u>\$275.2</u>	<u>\$215.4</u>	<u>\$177.5</u>
Primary earnings per share	<u>\$6.91</u>	<u>\$5.44</u>	<u>\$4.44</u>
FULLY DILUTED			
Weighted average shares outstanding	39,070,113	38,411,768	38,795,530
Issuable upon conversion of convertible debentures	552,291	992,648	1,112,414
Net increase upon exercise of stock options (1)	<u>275,367</u>	<u>173,986</u>	<u>75,697</u>
Total shares	<u>39,897,671</u>	<u>39,578,402</u>	<u>39,983,641</u>
Net earnings	\$274.9	\$214.7	\$176.6
Adjustment for interest and debt expense (less applicable income taxes) on convertible debentures	<u>.3</u>	<u>.7</u>	<u>.9</u>
	<u>\$275.2</u>	<u>\$215.4</u>	<u>\$177.5</u>
Fully diluted earnings per share	<u>\$6.91</u>	<u>\$5.44</u>	<u>\$4.44</u>

(1) The net increase in shares upon the exercise of stock options shown above assumes the exercise of all options with a price less than the average market price and use of the proceeds to purchase shares at the average market price during the year. If the year-end market price is higher than average market price, the year-end market price is used in the fully diluted computation.

Exhibit 22

MCDONNELL DOUGLAS CORPORATION
AND CONSOLIDATED SUBSIDIARIES

SUBSIDIARIES (1)

<u>Company</u>	<u>State of Incorporation</u>	<u>Business Name</u>
McDonnell Douglas Finance Corporation (2)	Delaware	McDonnell Douglas Finance Corporation or MDFC

- (1) All other subsidiaries have been omitted from this listing as, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.
- (2) An unconsolidated subsidiary meeting the test as a significant subsidiary.

Ernst & Whinney

10 Broadway
St. Louis, Missouri 63102

314/231-7700

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference of our report dated 26 January 1984 on the consolidated financial statements and financial statement schedules of McDonnell Douglas Corporation and consolidated subsidiaries included in the annual report on Form 10-K of McDonnell Douglas Corporation for the year ended 31 December 1983 in the following filings:

- o Registration Statement on Form S-8, Employee Savings Plan of McDonnell Douglas Corporation - Hourly East Plan, filed 9 March 1984.
- o Registration Statement on Form S-8, Employee Savings Plan of McDonnell Douglas Corporation - Hourly West Plan, filed 9 March 1984.
- o Registration Statement on Form S-8, Employee Thrift Plan of McDonnell Douglas Corporation - Subsidiary Plan, filed 28 February 1984.
- o Post-Effective Amendment Number 1 to Registration Statement File Number 2-82321 on Form S-8, Employee Savings Plan of McDonnell Douglas Corporation - Salaried Plan, filed 9 March 1984.
- o Post-Effective Amendment Number 3 to Registration Statement File Number 2-76396 on Form S-8, Employee Savings Plan of McAuto Systems Group, Inc., filed 9 March 1984.
- o Post-Effective Amendment Number 5 to Registration Statement File Number 2-71200 on Form S-8, Employee Savings Plan of Microdata Corporation, filed 9 March 1984.

Ernst & Whinney


ERNST & WHINNEY

St. Louis, Missouri
9 March 1984

POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below does hereby constitute and appoint John T. Sant and Walter E. Diggs, Jr. and each of them, acting severally, his true and lawful attorneys and agents to execute in his name, place and stead (whether on behalf of McDonnell Douglas Corporation, as an officer or Director thereof, or otherwise) McDonnell Douglas Corporation's 1983 Report on Form 10-K, and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys and agents may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have duly executed this statement as of the 7th day of March 1984.


Sanford N. McDonnell


Jerry G. Brown


George H. Capps

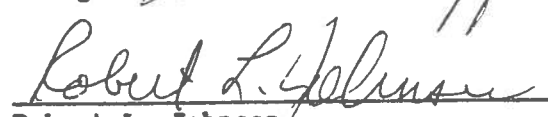

Michael N. Chetkovich


William H. Danforth


Donald W. Douglas, Jr.

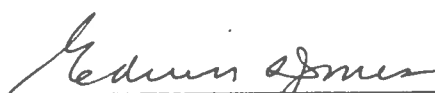

Elliott M. Estes


George S. Graff

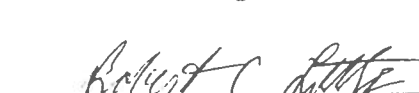

Robert L. Johnson


John F. McDonnell


Arthur W. Hyland


Edwin S. Jones


Charles F. Knight


Robert C. Little

Donald S. Macdonald

Jerry McAfee


James S. McDonnell III

William R. Orthwein, Jr.

**MCDONNELL DOUGLAS CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

FINANCIAL STATEMENT SCHEDULES

The following financial statement schedules of McDonnell Douglas Corporation and Consolidated Subsidiaries for the year ended 31 December 1983 are included herein:

Report of Independent Auditors

Schedule VII Guarantees of Securities of Other Issuers

Schedule VIII Valuation and Qualifying Accounts

Schedule IX Short-Term Borrowings

Schedule X Supplementary Income Statement Information

The following financial statements and schedules of McDonnell Douglas Finance Corporation and Subsidiaries, an unconsolidated subsidiary, for the year ended 31 December 1983 are included herein:

Report of Independent Accountants

Consolidated Balance Sheet, 31 December 1983 and 1982

Consolidated Statement of Earnings and Earnings Retained for Growth, years ended 31 December 1983, 1982 and 1981

Consolidated Statement of Changes in Financial Position, years ended 31 December 1983, 1982 and 1981

Notes to Consolidated Financial Statements, 31 December 1983

Schedule VIII Valuation and Qualifying Accounts

Schedule IX Short-Term Borrowings

Ernst & Whinney

10 Broadway
St. Louis, Missouri 63102

314/231-7700

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
McDonnell Douglas Corporation
St. Louis, Missouri

We have examined the consolidated financial statements and related schedules of McDonnell Douglas Corporation and consolidated subsidiaries listed in Item 14 (a) (1) and (2) of the annual report on Form 10-K of McDonnell Douglas Corporation for the year ended 31 December 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of McDonnell Douglas Corporation and consolidated subsidiaries at 31 December 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended 31 December 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

Ernst & Whinney

ERNST & WHINNEY

St. Louis, Missouri
26 January 1984

SCHEDULE VII - GUARANTEES OF SECURITIES OF OTHER ISSUERS
McDonnell Douglas Corporation and Consolidated Subsidiaries

31 DECEMBER 1983
(Dollars in millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F	COL. G
NAME OF ISSUER OF SECURITIES GUARANTEED BY PERSON FOR WHICH STATEMENT IS FILED	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person or Persons for Which Statement is Filed	Amount in Treasury of Issuer of Securities Guaranteed	Nature of Guarantee	Nature of Any Default by Issuer of Securities Guaranteed in Principal, Interest, Sinking Fund or Redemption Provisions, or Payment of Dividends

Garuda Airlines	Notes	\$.8	None	None	A	None
Korean Airlines	Notes	.4	None	None	B	None
Muse Air	Notes	3.4	None	None	B	None
Pakistan International Airlines	Notes	.6	None	None	B	None
Republic Airlines	Notes	11.8	None	None	B	None
VIASA	Notes	8.9	None	None	B	None
World Airways, Inc.	Notes	14.9	None	None	B	None
Wardair Canada Ltd.	Debentures	17.6	None	None	C	None

A - Notes sold with recourse.

B - MDC is obligated to purchase notes from holders in the amount shown in Column C, plus unpaid interest, in the event of nonpayment by issuer.

C - MDC is obligated to purchase income debentures in the amount shown in Column C in the event of nonpayment by issuer.

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
McDonnell Douglas Corporation and Consolidated Subsidiaries

YEARS ENDED 31 DECEMBER 1983, 1982 AND 1981
(Dollars in millions)

COL. A	COL. B
ITEM	Charged to Costs and Expenses

Year Ended 31 December 1983:

1. Maintenance and repairs	\$ 145.8
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	A
3. Taxes, other than payroll and income taxes	A
4. Royalties	A
5. Advertising costs	A

Year Ended 31 December 1982:

1. Maintenance and repairs	\$ 138.4
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	A
3. Taxes, other than payroll and income taxes	A
4. Royalties	A
5. Advertising costs	A

Year Ended 31 December 1981:

1. Maintenance and repairs	\$ 140.0
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	A
3. Taxes, other than payroll and income taxes	A
4. Royalties	A
5. Advertising costs	A

A - Individual amounts not listed or detailed because each was less than 1% of total sales and revenues.

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
McDonnell Douglas Corporation and Consolidated Subsidiaries

YEARS ENDED 31 DECEMBER 1983, 1982 AND 1981

(Dollars in millions)

COL. A	COL. B	COL. C		COL. D	COL. E
DESCRIPTION	Balance at Beginning of Period	ADDITIONS		Deductions - Describe	Balance at End of Period
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts - Describe		

Year Ended 31 December 1983:

Provision for restructure or default of commercial aircraft financing transactions	\$ 31.1	\$ 14.5	\$	\$	\$ 45.6
Allowances for uncollectible accounts	<u>11.1</u>	<u>1.5</u>	<u> </u>	<u>6.0 -C</u>	<u>6.6</u>
	<u>\$ 42.2</u>	<u>\$ 16.0</u>	<u>\$</u>	<u>\$ 6.0</u>	<u>\$ 52.2</u>

Year Ended 31 December 1982:

Provision for restructure or default of commercial aircraft financing transactions	\$ 50.0	\$ 30.0	\$	\$ 48.9 - B	\$ 31.1
Allowances for uncollectible accounts	<u>7.0</u>	<u>4.2</u>	<u>1.8 - A</u>	<u>1.9 - C</u>	<u>11.1</u>
	<u>\$ 57.0</u>	<u>\$ 34.2</u>	<u>\$ 1.8</u>	<u>\$ 50.8</u>	<u>\$ 42.2</u>

Year Ended 31 December 1981:

Provision for restructure or default of commercial aircraft financing transactions	\$	\$ 50.0	\$	\$	\$ 50.0
Allowances for uncollectible accounts	<u>4.0</u>	<u>3.9</u>	<u>.1 - A</u>	<u>1.0 - C</u>	<u>7.0</u>
	<u>\$ 4.0</u>	<u>\$ 53.9</u>	<u>\$.1</u>	<u>\$ 1.0</u>	<u>\$ 57.0</u>

- A - Principally reclassifications.
B - Settlement.
C - Uncollectible accounts written off.

Ernst & Whinney

Suite 800
4000 MacArthur Boulevard
Newport Beach, California 92660

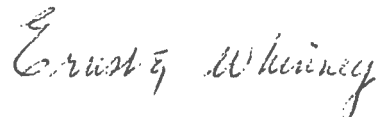
714/851-1700

REPORT OF INDEPENDENT ACCOUNTANTS

McDonnell Douglas Finance Corporation
Long Beach, California

We have examined the consolidated financial statements and related schedules of McDonnell Douglas Finance Corporation (a wholly-owned subsidiary of McDonnell Douglas Corporation) and subsidiaries listed in Item 14 (d) of the annual report on Form 10-K of McDonnell Douglas Corporation for the year ended 31 December 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of McDonnell Douglas Finance Corporation and subsidiaries at 31 December 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended 31 December 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.



ERNST & WHINNEY

Newport Beach, California
20 January 1984

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	31 DECEMBER 1983	31 DECEMBER 1982
ASSETS		
Cash	\$ 6,393	\$ 5,209
Short-term investments	19,667	19,624
Investment in finance receivables - Notes A and B:		
Sales-type and direct financing leases:		
Minimum lease payments	909,992	726,873
Residual values	103,802	81,273
Less unearned income	<u>(351,858)</u>	<u>(275,368)</u>
	661,936	532,778
Notes receivable:		
Principal	188,239	208,734
Accrued interest	4,529	4,075
Less unamortized discount	<u>(3,462)</u>	<u>(6,612)</u>
	189,306	206,197
	851,242	738,975
Less allowance for doubtful receivables	<u>(24,730)</u>	<u>(18,691)</u>
NET INVESTMENT	826,512	720,284
Investment in operating leases - equipment cost, net of accumulated depreciation - Note C	148,059	78,698
Equipment held for sale or lease	1,461	3,130
Advances on equipment to be leased	504	464
Notes and accounts with McDonnell Douglas Corporation	62,442	47,642
Deferred debt expenses	3,020	2,591
Other assets	15,880	4,947
	<u>\$1,083,938</u>	<u>\$882,589</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Short-term notes payable - Note D:		
Commercial paper	\$ 126,725	\$125,120
McDonnell Douglas Corporation		20,000
Other	3,710	
	130,435	145,120
Accounts payable and accrued expenses	39,062	22,996
Refundable deposits and advance rentals on leases	5,318	3,358
Deferred federal taxes on income	209,797	163,578
Deferred investment tax credit	45,837	39,870
Long-term debt - Note D:		
Senior - McDonnell Douglas Corporation		70,000
Senior - other	459,290	274,721
Subordinated	52,000	30,000
TOTAL LIABILITIES	941,739	749,643
Shareholder's equity:		
Common stock - par value \$100 per share:		
100,000 shares authorized		
50,000 shares issued and outstanding	5,000	5,000
Capital in excess of par value	75,000	75,000
Earnings retained for growth - Note D	62,272	52,945
Foreign currency translation adjustment	<u>(73)</u>	<u>1</u>
	142,199	132,946
	<u>\$1,083,938</u>	<u>\$882,589</u>

See notes to consolidated financial statements.

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS AND
EARNINGS RETAINED FOR GROWTH
(Dollars in thousands)

YEARS ENDED 31 DECEMBER	1983	1982	1981
Operating income			
Earned interest and discount on notes receivable	\$ 25,519	\$ 25,488	\$ 21,687
Income from leases:			
Sales-type and direct financing leases	53,509	42,673	26,833
Operating leases, net of related depreciation (1983 - \$22,027, 1982 - \$11,627, 1981 - \$10,472)	14,547	6,366	5,213
Amortization of investment tax credit on leased equipment	8,253	7,334	5,494
Gain on disposal of leased equipment	6,112	5,382	11,642
Other, net - Note F	6,833	7,600	3,932
	<u>114,773</u>	<u>94,843</u>	<u>74,801</u>
Costs and expenses			
Interest and debt expense - Note D:			
Long-term	56,293	41,170	27,629
Other	12,329	19,413	24,578
Provision for doubtful receivables	7,000	9,000	2,575
Operating expenses	14,907	6,981	4,848
	<u>90,529</u>	<u>76,564</u>	<u>59,630</u>
EARNINGS BEFORE INCOME TAXES	<u>24,244</u>	<u>18,279</u>	<u>15,171</u>
Provision for taxes on income - Note E	3,917	2,136	1,752
NET EARNINGS	<u>20,327</u>	<u>16,143</u>	<u>13,419</u>
Earnings retained for growth at beginning of year	52,945	44,802	31,383
Cash dividends	(11,000)	(8,000)	
EARNINGS RETAINED FOR GROWTH AT END OF YEAR	<u>\$ 62,272</u>	<u>\$ 52,945</u>	<u>\$ 44,802</u>

See notes to consolidated financial statements.

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Dollars in thousands)

<u>YEARS ENDED 31 DECEMBER</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
FUNDS PROVIDED BY			
Operations:			
Net earnings	\$ 20,327	\$ 16,143	\$ 13,419
Non-cash charges:			
Depreciation expense	22,027	11,627	10,472
Amortization of deferred debt expenses	531	278	353
Provision for doubtful receivables	7,000	9,000	2,575
Deferred income taxes and investment tax credit	52,186	40,035	38,375
TOTAL FROM OPERATIONS	<u>102,071</u>	<u>77,083</u>	<u>65,194</u>
Liquidation of notes and leases receivable	105,867	85,272	97,363
Disposition of notes and leases receivable	13,942	10,009	10,500
Proceeds from long-term debt:			
McDonnell Douglas Corporation			20,000
Other	173,500	221,238	42,800
Increase in accounts payable	16,066	15,286	2,620
Decrease (increase) in:			
Equipment held for sale or lease	1,669	(2,781)	35
Other	5,230	622	11,088
	<u>\$418,345</u>	<u>\$406,729</u>	<u>\$249,600</u>
FUNDS USED FOR			
Acquisition of:			
Notes and leases receivable	\$231,438	\$212,655	\$253,185
Cost of equipment - operating leases	45,894	7,060	20,545
Predelivery notes			7,044
Receivables written off	1,012	3,367	1,324
Investment in full-service truck leasing	19,735		
Retirement of long-term debt:			
McDonnell Douglas Corporation	70,000	30,000	
Other	8,514	44,623	41,321
Decrease (increase) in:			
Short-term debt	14,685	52,830	(72,305)
Increase (decrease) in:			
Advances on equipment to be leased	40	371	(10,819)
Accounts with McDonnell Douglas Corporation	14,800	28,763	9,804
Short-term investments	43	19,624	
Cash dividends	11,000	8,000	
Change in cash	1,184	(564)	(499)
	<u>\$418,345</u>	<u>\$406,729</u>	<u>\$249,600</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1983

A. SUMMARY OF ACCOUNTING POLICIES

Relationship with Parent Company. McDonnell Douglas Finance Corporation (MDFC) is a wholly-owned subsidiary of McDonnell Douglas Corporation (MDC). MDFC purchases from MDC aircraft notes receivable and aircraft for lease to others.

Principles of Consolidation. The consolidated financial statements include the accounts of MDFC and its subsidiaries after elimination of intercompany transactions.

Recognition of Income. Airline notes receivable are purchased from MDC at discounts which are amortized over the lives of the respective notes by the effective rate of interest method. Under this method the total interest plus discount amortization is equal to an amount computed by multiplying the declining discounted value of each note by the fixed effective interest rate of such note.

Sales-type and direct financing leases are accounted for by recognizing as earned income the excess of aggregate rentals over the cost (reduced by estimated residual value at the termination of the lease) of the leased equipment during the term of the lease at an approximately level rate of return on the unrecovered investment computed without regard to the effects of federal income tax deferrals.

Depreciation. Rental equipment under operating leases is recorded at cost and depreciated over the useful life using the straight line method except for aircraft which are depreciated using a declining balance method.

Income Taxes. The operations of MDFC and its subsidiaries are included in the consolidated federal income tax return of MDC. MDFC currently credits or charges MDC for the corresponding increase or decrease in MDC's taxes resulting from such inclusions, but payments between the companies are made when such taxes are due or tax credits are realized by MDC (see Note E).

Investment tax credits on leased equipment are deferred and amortized over the original terms of leases on a basis corresponding to the method of recognizing income from leases and are included in the statement of earnings as operating income except for investment tax credits earned by full-service truck leasing operations which are recognized using the flow-through method.

Foreign Currency Translation. MDFC has elected to apply Statement of Financial Accounting Standards No. 52 effective with the commencement of operations of its United Kingdom subsidiary in the first quarter of 1982. The foreign currency translation adjustment, included separately in shareholder's equity, arises from the translation of the subsidiary's financial statements to dollars.

B. RECEIVABLES

The scheduled aggregate amount of principal payments on notes receivable and installments on sales-type and direct financing leases receivable at 31 December 1983 are as follows: 1984, \$143,286,000; 1985, \$133,907,000; 1986, \$127,885,000; 1987, \$117,789,000; 1988, \$106,702,000; after 1988, \$468,662,000.

Residual values at the end of lease terms are \$103,802,000 at 31 December 1983 (31 December 1982 - \$81,273,000) which includes guaranteed residuals of \$6,131,000 at 31 December 1983 (31 December 1982 - \$6,281,000).

Sales-type and direct financing leases are leases of equipment having an original cost of \$1,032,830,000 at 31 December 1983 (31 December 1982 - \$836,408,000). Included in these leases are leveraged leases in the net amount of \$11,132,000 at 31 December 1983 (31 December 1982 - \$4,298,000). Also included are sales-type leases in the net amount of \$46,758,000 at 31 December 1983 (31 December 1982 - \$41,379,000) which are net of related nonrecourse installment notes payable amounting to \$90,791,000 at 31 December 1983 (31 December 1982 - \$80,972,000). Since MDFC has no general obligation on the notes, they are offset against the related leases receivable.

C. INVESTMENT IN OPERATING LEASES

Investment in operating leases consists of the following:

	31 December 1983	31 December 1982
	(Dollars in thousands)	
Assets:		
Aircraft	\$ 82,274	\$ 79,547
Full-service leasing equipment & contracts	58,385	
Highway vehicles	43,631	26,616
Vessels	10,200	3,200
Railroad rolling stock	10,189	6,550
Computer mainframes	7,790	7,764
Shipping containers	1,645	
Construction equipment	414	414
Material handling equipment	87	87
	<u>214,615</u>	<u>124,178</u>
Accumulated depreciation and amortization	66,556	45,480
Net book value	<u>\$ 148,059</u>	<u>\$ 78,698</u>

At 31 December 1983 minimum rental payments scheduled to be received under the non-cancellable portion of operating leases are as follows: \$32,080,000 in 1984; \$25,141,000 in 1985; \$18,022,000 in 1986; \$12,862,000 in 1987; \$6,535,000 in 1988; and \$9,007,000 thereafter.

D. CREDIT AGREEMENTS AND LONG-TERM DEBT

Commercial paper is MDFC's primary source of short-term funds and is backed by the revolving credit agreements referred to below.

Under a Eurodollar revolving credit agreement, MDFC can borrow through 19 February 1987 a maximum of \$65,000,000. Borrowings, if any, under this line would be for periods up to four years at fixed rates to be set at the date of each borrowing. Under a domestic revolving credit agreement, MDFC can borrow a maximum of \$150,000,000. The interest rate, at the option of MDFC, will be the London interbank rate plus 3/8 of 1%, Chase Manhattan Bank's prime rate or the short term certificate of deposit rate plus 1/2 of 1%. The borrowings, if any, are convertible at 30 April 1985 into term notes due through 30 April 1988. There are no borrowings under either of the agreements as of 31 December 1983.

Short-term notes payable to MDC are issued for 30 days at an interest rate based on the commercial paper rate in effect on the date of issuance of each note.

Senior long-term borrowing from MDC is under a credit arrangement whereby MDFC can borrow up to \$100,000,000 at an interest rate set at the time of borrowing.

Senior - other long-term debt consists of the following:

	31 December 1983	31 December 1982
	(Dollars in thousands)	
8.25% Notes due through 1984	\$ 123	\$ 184
14.90% Note due 1985	10,000	10,000
16.75% Note due 1985	10,000	10,000
11.65% Note due 1987	5,000	
15.15% Notes due 1987	12,177	12,177
17% Notes due 1989	50,000	50,000
Capital leases due through 1990	3,807	5,360
16.43% Notes due from 1987 through 1991	23,000	23,000
9% Notes due through 1992	30,600	34,000
Intermediate and Medium term notes due through 1997	273,000	130,000
Secured debt	41,583	
	<u>\$ 459,290</u>	<u>\$ 274,721</u>

The intermediate and medium term notes bear interest at rates ranging from 9.625% to 16.50% paid semi-annually.

The secured debt is comprised of equipment financing obligations on full-service trucks and leases of Brind Leasing Corporation due through 1990 and bears interest at rates ranging from 10.50% to 15.50%. Substantially all of the full-service trucks and leases, with a net book value of \$50,301,000 at 31 December 1983, are pledged.

Subordinated long-term debt consists of the following:

	31 December 1983	31 December 1982
	(Dollars in thousands)	
16.25% Note due 1986	\$ 10,000	\$ 10,000
12.50% Note due 1987	5,000	5,000
13% Notes due from 1988 through 1992	15,000	15,000
12.625% Notes due 1992	6,000	
12.75% Notes due 1993	11,000	
12.625% Note due 1993	5,000	
	<u>\$ 52,000</u>	<u>\$ 30,000</u>

The aggregate amount of long-term debt maturities for the five years ending 31 December 1988 are as follows: 1984, \$44,654,000; 1985, \$104,023,000; 1986, \$76,722,000; 1987, \$78,362,000; 1988, \$37,291,000.

The provisions of various credit and debt agreements require MDFC to maintain a minimum net worth, restrict indebtedness, and limit cash dividends and other distributions. Under the most restrictive provision, \$34,327,000 was available for dividends at 31 December 1983.

Included in interest and debt expense is interest on funds borrowed from MDC. The net amount of such interest was \$2,959,000 in 1983, \$17,331,000 in 1982, and \$21,290,000 in 1981.

E. INCOME TAXES

The provision for taxes on income is at an effective tax rate that differs from the United States corporate tax rate. Details relating to the provision for taxes are as follows:

	1983	1982	1981
	(Dollars in thousands)		
Tax computed at federal statutory rate	\$11,152	\$ 8,408	\$ 6,978
Effect of investment tax credit included in earnings before income taxes	(3,797)	(3,374)	(2,527)
Effect of dividends subject to 85% deduction	(2,923)	(2,744)	(2,110)
Investment tax credit - flow-through method	(419)		
Other	(96)	(154)	(589)
	<u>\$ 3,917</u>	<u>\$ 2,136</u>	<u>\$ 1,752</u>

The provision for taxes on income in 1983 includes \$345,000 (1982 - \$287,000) in foreign taxes.

The income tax payable or receivable for each year may be materially different from the provision for that year, as detailed below:

	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(Dollars in thousands)		
Current taxes payable (receivable)	\$(56,700)	\$(45,009)	\$(41,979)
Investment tax credit deferred for financial reporting purposes	14,053	9,349	20,296
Deferred taxes, resulting from timing differences between financial and tax reporting are:			
Lease income	44,178	33,833	19,600
DISC	1,697	2,427	3,108
Interest		1	766
Joint venture - real estate	(266)	873	
Other	955	662	(39)
	<u>\$ 3,917</u>	<u>\$ 2,136</u>	<u>\$ 1,752</u>

F. OTHER INCOME, NET

	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(Dollars in thousands)		
Interest income - Producer Loan Notes Receivable	\$ 5,466	\$ 4,562	\$ 2,989
Interest capitalized on advances on equipment to be leased		2	1,664
Other interest income	1,431	1,226	658
Income from Joint Venture - Real Estate	75	1,899	
Write-down of residual value of leased equipment	(50)	(159)	(1,739)
Other, net	(89)	70	360
	<u>\$ 6,833</u>	<u>\$ 7,600</u>	<u>\$ 3,932</u>

G. ACQUISITION

Effective 1 January 1983, MDFC purchased substantially all of the assets (approximately \$35 million) and assumed substantially all of the liabilities (approximately \$26 million) of the Brind Corporation and its subsidiaries ("Brind") for approximately \$9 million in cash. On 18 September 1983 Brind purchased substantially all of the assets (approximately \$21 million) and assumed substantially all the liabilities (approximately \$10 million) of Riteway Rentals, Inc. for approximately \$11 million in cash. This subsidiary is primarily engaged in the full-service truck and trailer leasing business, whereby the vehicle, maintenance, repairs and other services and, in many cases, fuel are provided. This subsidiary also operates a truck rental business for customers requiring short-term vehicle usage, usually on a daily, weekly or monthly basis.

The Company has accounted for these acquisitions as purchases. Proforma financial information has not been presented because the effects of these transactions on the results of operations and financial position of the Company are not considered to be material.

H. COMMITMENTS

MDFC had commitments to provide leasing and other financing in the aggregate amount of \$58,447,000 at 31 December 1983 (\$26,541,000 at 31 December 1982).

I. SEGMENT FINANCIAL DATA

Total operating income, earnings (loss) before income taxes and net earnings for the years ended 31 December 1983, 1982 and 1981 and identifiable assets at 31 December 1983, 1982 and 1981 for the Company's industry segments are presented in the following table:

	1983	1982	1981
	(dollars in thousands)		
Total operating income:			
Commercial and industrial financing	\$ 56,649	\$ 48,504	\$ 32,200
MDC aircraft financing	49,858	46,339	42,601
Full-service leasing ⁽¹⁾	9,266		
	<u>\$ 114,773</u>	<u>\$ 94,843</u>	<u>\$ 74,801</u>
Earnings (loss) before income taxes:			
Commercial and industrial financing	\$ 7,802	\$ 6,824	\$ (227)
MDC aircraft financing	16,728	11,455	15,398
Full-service leasing	(286)		
	<u>\$ 24,244</u>	<u>\$ 18,279</u>	<u>\$ 15,171</u>
Net earnings:			
Commercial and industrial financing	\$ 9,537	\$ 8,626	\$ 3,732
MDC aircraft financing	10,621	7,517	9,687
Full-service leasing	169		
	<u>\$ 20,327</u>	<u>\$ 16,143</u>	<u>\$ 13,419</u>
Identifiable assets at end of year:			
Commercial and industrial financing	\$ 534,885	\$437,151	\$334,926
MDC aircraft financing	449,345	418,516	374,144
Full-service leasing	61,123		
Corporate assets, principally cash and balances due from MDC	38,585	26,922	16,470
	<u>\$1,083,938</u>	<u>\$882,589</u>	<u>\$725,540</u>

(1) Reduced by direct operating expenses, including depreciation.

Depreciation and amortization expense and the cost of equipment acquired for operating leases for the years ended 31 December 1983, 1982 and 1981 for each of the Company's industry segments are included in the following table:

	1983	1982	1981
	(dollars in thousands)		
Depreciation and amortization expense:			
Commercial and industrial financing	\$ 8,841	\$ 6,562	\$ 5,051
MDC aircraft financing	4,261	5,065	5,421
Full-service leasing	8,925		
	<u>\$ 22,027</u>	<u>\$ 11,627</u>	<u>\$ 10,472</u>
Equipment acquired for operating leases, at cost:			
Commercial and industrial financing	\$ 32,510	\$ 7,060	\$ 15,219
MDC aircraft financing			5,326
Full-service leasing	13,384		
	<u>\$ 45,894</u>	<u>\$ 7,060</u>	<u>\$ 20,454</u>

A substantial portion of the Company's business, primarily MDC aircraft financing, is conducted with non-U.S. companies.

Operating income, net earnings and identifiable assets for the United States and other countries at 31 December 1983, 1982 and 1981 and for the years then ended were as follows:

	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(dollars in thousands)		
Operating income:			
United States	\$ 94,493	\$ 77,598	\$ 59,993
Other countries	20,280	17,245	14,808
Total	<u>\$ 114,773</u>	<u>\$ 94,843</u>	<u>\$ 74,801</u>
Net earnings:			
United States	\$ 18,934	\$ 14,190	\$ 12,745
Other countries	1,393	1,953	674
Total	<u>\$ 20,327</u>	<u>\$ 16,143</u>	<u>\$ 13,419</u>
Identifiable assets at end of year:			
United States	\$ 937,126	\$726,275	\$560,539
Other countries	146,812	156,314	165,001
Total	<u>\$1,083,938</u>	<u>\$882,589</u>	<u>\$725,540</u>

J. INFLATION AND CHANGING PRICES (UNAUDITED)

Generally accepted accounting principles, as used to prepare the consolidated financial statements, were never meant to measure the effects of inflation and changing prices on enterprises. The Financial Accounting Standards Board has an experiment in process to develop understandable measurements of the effects of inflation, and the data for the Company using the methodologies prescribed in the Standard is presented in the table below.

The Company has categorized all assets and liabilities, except operating leases, as monetary because these amounts generally represent cash, claims to cash, or items that require the payment of a fixed sum of money. There are no material differences between income reported on a historical cost/constant dollar basis and income computed on a current cost basis. Information relative to common share amounts is not presented because the Company is a wholly owned subsidiary of MDC.

Users of financial statements are cautioned against drawing conclusions regarding the impact of inflation on the Company's operations based solely on the data presented. The Financial Accounting Standards Board has indicated that further experimentation is required in order to determine the usefulness of such data. Among the other relevant factors to be considered are the overall demand for borrowed funds, governmental policies, and the spread between the Company's borrowing rates and the rates charged to its customers.

Supplementary Inflation Data in Average 1983 Dollars (Dollars in thousands)

YEARS ENDED 31 DECEMBER	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>
Operating income, before depreciation expense ⁽¹⁾					
Historical dollars	\$136,800	\$106,470	\$ 85,273	\$ 78,907	\$ 61,112
Constant dollars	136,800	109,895	93,412	95,405	83,881
Net earnings					
Historical dollars	\$ 20,327	\$ 16,143	\$ 13,419		
Constant dollars ⁽²⁾	16,194	11,372	9,230		
Cash dividends					
Historical dollars	\$ 11,000	\$ 8,000		\$ 14,000	\$ 12,000
Constant dollars	11,000	8,257		16,927	16,471
Net assets at end of year					
Historical dollars	\$142,199	\$132,946	\$124,802		
Constant dollars	168,699	165,320	162,673		
Purchasing power gain (loss) on net monetary items					
Constant dollars	\$ (1,014)	\$ (1,537)	\$ (3,194)		
Average Consumer Price Index—Urban (1967=100%)	298.4%	289.1%	272.4%	246.8%	217.4%

(1) The Company includes income from operating leases net of depreciation in total operating income.

(2) In accordance with FASB No. 33 requirements, adjustments do not include the effects of income taxes.

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
(Dollars in thousands)

Description	Balance at Beginning of Period	Additions		Deductions (2)	Balance at End of Period
		Charged to Costs and Expenses	Other (1)		
Year ended 31 December 1983:					
Allowance for doubtful receivables	\$ 18,691	\$ 7,000	\$ 51	\$ (1,012)	\$ 24,730
Year ended 31 December 1982:					
Allowance for doubtful receivables	\$ 12,895	\$ 9,000	\$ 163	\$ (3,367)	\$ 18,691
Year ended 31 December 1981:					
Allowance for doubtful receivables	\$ 11,644	\$ 2,575	\$ -	\$ (1,324)	\$ 12,895

(1) These amounts relate to the Company's U. K. subsidiary and were provided at the inception of related leases by a charge to unearned income.

(2) Losses net of recoveries

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES
SCHEDULE IX - SHORT-TERM BORROWINGS (1)
(Dollars in thousands)

<u>Category of Aggregate Short-term Borrowings</u>	<u>Balance at end of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (2)</u>	<u>Weighted Average Interest Rate During the Period (3)(4)</u>
Year ended 31 December 1983:					
Commercial paper	\$126,725	9.88%	\$126,735	\$113,902	9.20%
MDC	-	-	24,000	9,491	9.21%
Year ended 31 December 1982:					
Commercial paper	\$125,120	8.75%	\$125,120	\$106,788	12.16%
MDC	20,000	8.73	108,700	39,301	13.64
Year ended 31 December 1981:					
Commercial paper	\$ 98,450	12.10%	\$ 98,875	\$ 98,597	16.54%
MDC	99,500	12.35	108,500	44,109	15.38

- (1) Commercial paper is issued from time to time at various maturities and short-term notes payable to MDC are issued for 30 days.
- (2) Computed by dividing the total of daily principal balances by the number of days in the year.
- (3) Computed by dividing the actual interest expense by averaged short-term debt outstanding.
- (4) The effective interest rate on short-term borrowings including the effect of fees and required compensating balances was 10.53% for 1983, 13.47% for 1982 and 17.38% for 1981.